CalHFA BOARD OF DIRECTORS

California Housing Finance Agency
Board of Directors

July 21, 2011

Burbank Airport Marriott Hotel
& Convention Center
2500 Hollywood Way
Burbank, California
(818) 843-6000

10:00 a.m.

1. Roll Call.

2. Approval of the minutes of the May 19, 2011 Board of Directors meeting.

3. Chairman/Executive Director comments.

4. Discussion, recommendation and possible amendment of Resolution 11-07 regarding the Agency's Two-Year Business Plan for Fiscal Years 2011/2012 and 2012/2013. (Steve Spears/Senior Staff)

5. Discussion, recommendation and possible action regarding the approval of compensation of certain exempt management in accordance with Health and Safety Code section 50909(a). (Steve Spears)

6. Discussion, recommendation and possible action regarding the establishment of an employee recognition program for non-exempt employees to recognize superior performance and outstanding contribution to the Agency. (Ken Giebel/Howard Iwata)

10. Discussion of other Board matters.

11. Public testimony: Discussion only of other matters to be brought to the Board's attention.

12. Adjournment

13. Handouts

NOTES**

HOTEL PARKING: Cash @ $10.00 per car, per entry, pay at gate with no in and out privileges.

FUTURE MEETING DATES: Next CalHFA Board of Directors Meeting will be September 22, 2011, at the Holiday Inn Capitol Plaza, Sacramento, California.

STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS

PUBLIC MEETING

Holiday Inn Capitol Plaza
300 J Street
Sacramento, California

Thursday, May 19, 2011
10:00 a.m.

Reported by: DANIEL P. FELDHAUS, CSR #6949, RDR, CRR

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A P P E A R A N C E S

Board of Directors Present

PETER N. CAREY
(Acting Board Chair)
President/CEO
Self-Help Enterprises

KEN ALEX
Director
Office of Planning & Research
State of California

CLAUDIA CAPPIO
Executive Director
California Housing Finance Agency
State of California

KATIE CARROLL
for Bill Lockyer
State Treasurer
State of California

CATHY CRESSWELL
Acting Director
Department of Housing and Community Development
State of California

MICHAEL A. GUNNING
Vice President
Personal Insurance Federation of California

JONATHAN C. HUNTER
Managing Director, Region 2
Corporation for Supportive Housing

HEATHER PETERS
for Traci Stevens, Acting Undersecretary
Business, Transportation, and Housing Agency
State of California

PEDRO REYES
for Ana J. Matosantos, Director
Department of Finance
State of California

A P P E A R A N C E S

Board of Directors Present

RUBEN A. SMITH
Partner
Adorno Yoss Alvarado & Smith
A Professional Corporation

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Participating CalHFA Staff

MARGARET ALVAREZ
Director of Asset Management

GARY M. BRAUNSTEIN
Special Advisor to Executive Director
and
Acting Director of Homeownership

ROBERT L. DEANER II
Director of Multifamily Programs

BRUCE D. GILBERTSON
Director of Financing

THOMAS C. HUGHES
General Counsel

HOWARD IWATA
Director of Administration

JOJO OJIMA
Office of the General Counsel

DIANE RICHARDSON
Director of Legislation

L. STEVEN SPEARS
Chief Deputy Director

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Public Testimony

JEANNE LeDUC

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BE IT REMEMBERED that on Thursday, May 19, 2011, commencing at the hour of 10:05 a.m., at the Holiday Inn Capitol Plaza, 300 J Street, Sacramento, California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following proceedings were held:

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(The following proceedings commenced with Mr. Alex absent from the meeting room.)

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Item 1. Roll Call

CHAIR CAREY: Welcome, everyone, to the May meeting of the California Housing Finance Agency Board of Directors.

Our first order of business is roll call.

MS. OJIMA: Thank you.

Ms. Creswell?

MS. CRESWELL: Here.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Here.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Here.

MS. OJIMA: Ms. Carroll for Mr. Lockyer?

MS. CARROLL: Here.

MS. OJIMA: Mr. Shine?

(No response)

MS. OJIMA: Mr. Smith?

MR. SMITH: Present.

MS. OJIMA: Ms. Peters for Ms. Stevens?

MS. STEVENS: Here.

MS. OJIMA: Mr. Alex?

(No response)

MS. OJIMA: Mr. Reyes for Ms. Matosantos?

MR. REYES: Present.

MS. OJIMA: Ms. Cappio?

MS. CAPPIO: Present.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Here.

MS. OJIMA: We have a quorum.

CHAIR CAREY: Thank you.

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Item 2. Approval of the Minutes of the March 16, 2011, Board of Directors Meeting

CHAIR CAREY: The next item of business is approval of the minutes of the March 16th Board of Directors meeting.

MS. CRESWELL: So moved.

MS. PETERS: Seconded.

CHAIR CAREY: We have a motion and a second. Roll call, please.

MS. OJIMA: Thank you.

Ms. Creswell?

MS. CRESWELL: Approve.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Aye.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Yes.

MS. OJIMA: Mr. Smith?

MR. SMITH: Yes.

MS. OJIMA: Ms. Peters?

MS. PETERS: Yes.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Yes.

MS. OJIMA: The minutes have been approved.

(Mr. Alex entered the meeting room.)

CHAIR CAREY: And, for the record, Mr. Alex is here.

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Item 3. Chairman/Executive Director Comments

CHAIR CAREY: Welcome.

Another moment of change for the Agency and the Board.

I think everyone knows that Mr. Hudson has resigned from the Board due to time conflicts. But I want to welcome Mr. Reyes here today for his first meeting.

And I especially want to welcome our new executive director, Claudia Cappio.

Claudia comes to us with a wide range of experience in housing, city planning, economic development, primarily in the Bay Area. She served as development director for the City of Oakland, and numerous significant projects there.

A reputation for creativity and enthusiasm, which we're happy to have here.

And with that, I'd like to turn it over to Ms. Cappio.

MS. CAPPIO: Thank you.

I'm pleased to be here and to be part of the Agency. And I've been very impressed so far about the team that is composed of CalHFA. And I look forward to working with the Board and with staff in the coming years to continue to right our ship and to do what we do best, which is lending for affordable housing in California.

And, you know, I have some initial thoughts about what it is we need to do. And other than the financial stability, which we are -- and liquidity -- I've learned a lot about liquidity in the last couple of weeks. But I think we need to look at the linkages between climate change and affordable housing, land use and transportation. I think there's a big part that we will play in that in the coming years.

I think we need to look at efficiencies, not only in working to better together a CalHFA, but the other housing entities in the state. And also, to get the most affordable housing produced in the most efficient way, and hopefully for the least subsidy per unit, while still meeting our income and other goals.

And then there is the age-old question in California for at least the last 30 years about a sustainable funding stream for affordable housing. And although this may not be an ideal time, when you look at other things around us -- other financial storms around us -- I think with redevelopment being threatened, that it's time to bring that up again and see what we can do about it.

So those are my quick thoughts. And I look forward to working with you all.

CHAIR CAREY: Well, I think we all look forward to it also.

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Item 4. Closed session under Government Code Section 11126(e)(1)

CHAIR CAREY: With that, we will be adjourning to a closed session under Government Code 11126(e)(1) to confer with and receive advice from counsel.

(Gavel sounded.)

(The Board of Directors met in closed executive session from 10:09 a.m. to 10:24 a.m.)

CHAIR CAREY: We are back in session.

It's JoJo's arrival that triggers that.

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Item 5. Discussion, recommendation, and possible action regarding the audit recommendations of the Bureau of State Audits

CHAIR CAREY: The next item of business is Item 5, discussion and recommendation and possible action regarding the recommendations from the Bureau of State Audits' report, following up on a couple of the items from that.

Mr. Spears, are you handling that?

MR. SPEARS: The Bureau of State Audits' report had three recommendations.

One was for the Legislature, if you'll recall, to review the statute that outlines the makeup of the Board.

We presented some information at the last Board meeting about other states and their boards. And there were a number of questions. But in the end, the Board asked the staff to prepare a memo about the ins and outs of the statute, approaches that could be taken. But in the end, this is an issue for the Legislature.

So Tom prepared the memo that you have.

Unfortunately, it did not go in the Board packet because of my oversight. But Tom sent this out afterwards.

If you don't have a copy of that with you, I think JoJo brought extra copies. You probably have that in front of you.

So I would just open it up for discussion.

CHAIR CAREY: Sort of as a preamble, I guess I'd say that I've read the statute a few times, and a hundred possibilities. And while the statute is somewhat overly unnecessarily complicated, it also strikes me that maybe this is a matter best left to the Legislature, where the Bureau of State Audits directed it, and that we'd be prepared to work with any suggestions or provide input. But I'm not sure, from my point of view, that this is the moment to be making recommendations on an issue that seems less important than some of the others we're dealing with.

I don't know what other members feel.

MR. GUNNING: Mr. Chairman, yes, I know at the time it seemed like the gun was to our head. And, obviously, it's funny what three months can do: A new director, the Legislature's moved on. I think I would concur with your assessment.

CHAIR CAREY: Other thoughts?

MS. PETERS: I agree that it's best left to the Legislature.

I would ask that the legislative deputy for the Agency, when or if she hears of the inklings of a discussion of it, bring it to the Board so that we can have a more thorough discussion of whatever we want to weigh in, one way or the other, at that time.

CHAIR CAREY: That makes sense.

MR. GUNNING: Yes, and I think we need to be vigilant. But right now, I think there's other fish to fry. Pun intended over there.

CHAIR CAREY: Okay.

MS. PETERS: Speak of the devil.

MS. RICHARDSON: Sorry, I only caught the end of Ms. Peters' comments when I was coming back in.

I can tell you that there is interest in having some sort of legislation to address the BSA report.

Chairwoman Norma Torres from the Assembly Housing Committee has expressed an interest. And there is a bill, AB 1422. It's a Gatto bill that was a completely unrelated vehicle that Mr. Gatto just sort of had out there for another use.

It originally would have said that it dealt with the whole salary survey issue. And it basically just clarified that the Board was in charge of hiring somebody to do the salary survey instead of the Agency. And that bill was heard in the Assembly Housing Committee last week, and it was amended to try to address the conflict-of-interest provisions.

This Board, we’ve had this issue come up before, where we’ve got a professional -- you know, our statutes require that the Board be made up of people from certain industries. And there is a conflict between our governing statutes, which say that if you have a conflict, you recuse yourself and the Government Code conflict-of-interest statutes which basically say the Board can’t act if there’s a conflict of interest. And there have been conflicting Attorney General opinions on this subject of how it affects this board.

We did sponsor legislation on this issue a couple of years ago. That provision, one member of the Senate at the time had a problem with that particular language, so it was removed from the bill.

So 1422 was recently amended in an attempt to address that issue; but it’s still not the language that our counsel believes we need to fully address that issue.

That will be going through the regular approval channels. And I don't anticipate we'll have a problem getting it approved, and so it will probably go in that bill. But I haven't heard any discussion from the Legislature about changing the -- you know, whether we needed actual legislation to change the composition of the Board or add additional members.

I think what I have heard from legislative staff, mostly, is that they seem to think that there is enough flexibility there that we have the ability to have the financial expertise on the Board. It's just been difficult for us to attract those kinds of members because of potential conflict issues.

CHAIR CAREY: So just back to Ms. Peters' comment, you will let the Board know if anything moves along --

MS. RICHARDSON: Yes, yes.

CHAIR CAREY: -- of significance in that respect?

MS. RICHARDSON: Yes.

CHAIR CAREY: Great.

MR. GUNNING: So what do you think Assemblywoman Torres wants to do?

MS. RICHARDSON: She just, you know, read the BSA audit, thought it was a fair audit. Nothing surprising. Nothing shocking. But there were some recommendations, and so she wants to be seen as being proactive as far as, are there any recommendations.

She's been very engaged with us in discussing what we might think we need to implement any of those recommendations.

MR. GUNNING: If we could follow-up. You know, she's on the insurance committee, and I've got a pretty good relationship with her, so…

MS. RICHARDSON: Yes, okay.

CHAIR CAREY: Great. With that, the second issue?

MR. SPEARS: The other two recommendations were to the Board of directors.

One was that the Board adopt an overall policy that would address a couple of things.

New financial strategies that the staff might want to engage in for the Agency and also new loan products that the staff might want to develop.

And the two recommendations really could probably have been consolidated to one. The recommendation was to have an overall policy; and the recommendation also is every year, in January, when the financing resolutions are discussed and adopted, that there be a statement in there that: "Okay, we're adopting this financing resolution; but if you want to do anything that's different, you've got to come back to the Board."

The same thing with the business plan and loan products, that the business plan would contain language that would say that the staff is required to come back to the Board.

So we've taken care of that -- part of that -- in that the financing resolution has that language in it that was adopted back in January. That's taken care of. You will see in the business plan today statements to that effect.

And finally, in the business plan, you'll also see a restriction on the use of variable-rate debt. So when you adopt the resolution today for the business plan, you will accomplish almost all of what the Bureau of State Audits recommended.

The only thing left is the overall policy, and that's what this agenda item is about and that's what this resolution attempts to accomplish.

CHAIR CAREY: And this is the language that was discussed at the last Board meeting in March?

MR. SPEARS: Item 1 in the "Be it resolved" portion is the language that was read by the Chair at the last Board meeting in March.

Item 2 gets to the second part, that "The business plan every year shall address these two items: Variable-rate debt and the loan products."

CHAIR CAREY: Which I think reflects the sense of the subsequent discussion that we had at that meeting.

Any questions or concerns?

MS. CRESWELL: Can you just remind me when the next follow-up to the BSA, they were going to come back at six months or something?

MR. SPEARS: Sixty days.

MS. CRESWELL: Sixty days?

MR. SPEARS: So we've responded twice already.

MS. CRESWELL: Okay.

MR. SPEARS: We've responded to the audit itself; then 60 days later, we wrote a response letter.

MS. CRESWELL: Just sort of updating them on what you had already accomplished?

MR. SPEARS: Right.

And I can't remember if the next follow-up is six months or a year.

Six months.

And if the Board adopts this resolution and the resolution with the business plan, the Board of Directors, at least at this point, will fully comply with all the recommendations.

MS. CRESWELL: Okay. Thank you.

CHAIR CAREY: Yes?

MS. CARROLL: Can I just ask for a quick clarification?

Steve, I think what you're saying here -- and it just was a little confusing, so I wanted to make sure; so we're saying that, 1, under "Now, be it resolved," is addressing directly what BSA asked us to do, which is to have a policy; and then we're saying that 2 is the manner in which we're going to implement that requirement, is through the business plan each year?

Because it kind of -- you know, 2 talks about limitations on variable-rate and loan products, which are a little more specific than 1.

MR. SPEARS: Right. And that's the way the recommendation is written.

Unfortunately, in the executive summary portion of the BSA report, they have the short version of the recommendation.

If you go to chapter 2 --

MS. CARROLL: Right.

MR. SPEARS: -- where the full text of the recommendation is, it has both item 1 and item 2.

And we're just trying to --

MS. CARROLL: You're just echoing --

MR. SPEARS: -- word it the way they worded it.

MS. CARROLL: Okay, thank you.

I mean, I do think it's important, though, regardless of how they worded it, that we're clear as the Board that that's our intent, is that this is how we implement their policy recommendation, is through the business plan.

And is that --

MR. SPEARS: When I teach college classes, I usually try to repeat myself two or three times.

So I think there's some repetition in here, but I think it's…

CHAIR CAREY: It seems to me, it's also two pieces of the issue. On the one hand, is new funding strategies will be discussed with the Board.

The other was more specifically the issue around variable debt. And following our discussion, wanting a little more clarity on where and how the decision would be codified by the amount of variable debt for the Agency.

MR. HUNTER: I just want to say, I went back, actually, and carefully reviewed the minutes around that conversation, because I was trying to remember everything we had talked through; and I thought the resolution captured exactly what we were trying to get at.

MR. SPEARS: Tom and I spent a lot of time doing exactly that. I went back -- Peter and I had a conversation just to make sure. We especially reviewed Katie's comments, because we wanted to get it right. And then when you read the full recommendation in the body of the report itself, it's more specific than the summary up-front.

CHAIR CAREY: Any other comments or questions?

(No response)

CHAIR CAREY: Would someone care to make a motion to approve --

MR. HUNTER: I will move adoption of Resolution 11-06.

MR. HUGHES: Mr. Chair, I think we need to ask for public comments first.

CHAIR CAREY: Okay, now, I get mixed signals. Before or after the motion?

MR. HUGHES: I think before we vote.

CHAIR CAREY: Yes.

MR. SMITH: Second the motion.

CHAIR CAREY: We have a motion and a second.

Thank you.

With that, this is an opportunity for the public to comment on this particular item.

If there's anyone in the audience who would like to address the Board, please indicate so.

(No response)

CHAIR CAREY: Seeing none, roll call.

MS. OJIMA: Thank you.

Ms. Creswell?

MS. CRESWELL: Yes.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Yes.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Yes.

MS. OJIMA: Mr. Smith?

MR. SMITH: Yes.

MS. OJIMA: Ms. Peters?

MS. PETERS: Yes.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Yes.

MS. OJIMA: Resolution 11-06 has been approved.

CHAIR CAREY: Congratulations, Board, for getting this behind us.

MR. SPEARS: Not quite. You still have another resolution.

MS. PETERS: The business plan.

MR. SPEARS: You're almost there.

Item 6. Report of the Chairman of the Audit Committee

CHAIR CAREY: The next item of business is a report by the chair of the Audit Committee which met this morning.

MR. SMITH: Yes, Mr. Chairman.

The Audit Committee met this morning and reviewed the audit. It was good news/bad news.

The good news is that the process by which we handle our budget is -- our numbers, there were no comments or no misstatements. Everything was great.

The bad news is that -- and I'll read the conclusion because I think it's important to read the wording that they provided.

"The Fund has experienced reocurring losses, and Management of the Fund has concluded that there is a substantial doubt as to the Fund's ability to continue as a going concern."

We all know -- and we've been talking about this for quite a while -- that the fund that provides 25 percent of the insurance that we give when we have losses as a result of foreclosure is running out of money, and we expect it to run out of money by the third quarter of this year.

So it's not new information, but it's now in the audit. So it's important to have the Board members understand that.

CHAIR CAREY: Any questions or comments from other Audit Committee members?

MR. SPEARS: For your reading pleasure, in the Board binders is a full set of the audit financials, with the footnotes. And one of them has this information that Mr. Smith just outlined.

CHAIR CAREY: Okay, thank you, Mr. Smith.

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Item 7. Discussion, recommendation, and possible action regarding the adoption of a resolution approving the Two-Year Business Plan for Fiscal Years 2011/2012 and 2012/2013

CHAIR CAREY: Well, now, having looked back, we get a chance to look forward, which I think we all enjoy more.

Item 7 is discussion of the proposed two-year business plan.

MR. SPEARS: Mr. Chairman and Members, we bring to you a proposal for the next two years' business plan.

The intent was to provide you in your binders with an easy-to-read PowerPoint plan. We tried to summarize a lot of those slides in what you'll see on the screen. So the handout slides will sort of follow along with the more detailed slides.

I've added a few pictures along the way to make it more interesting.

And I decided that, with Bruce, that we would -- with the action by Standard & Poor's last week on our ratings, with the upcoming action on Moody's, that we would spend a little time in the assumptions part to discuss something that wasn't in your slides, and that is how we're doing with the rating agencies, how we're doing with the single-family portfolio, and how we're doing on liquidity. Those are the lynchpins.

We'll spend some time on that first, then we'll get to the divisions -- you know, the lending activity, and walk you through that.

The theme for today is, though, that I think we're cautiously optimistic. We see a couple of indications of turnarounds, but we're going to be cautious about that.

Our funding sources, though, are beginning to come to an end. We've done some lending, and it's been great. It's been great for the Agency. It's been great for the morale of the employees, frankly.

The reason we were able to do that, we have Mental Health Services Act funds that are not bond-funded, $400 million. That's worked very, very well.

We helped the Tax Credit Allocation Committee get some ARRA funds out the door, and helped with that. And because of the New Issue Bond Program with the U.S. Treasury, we're able to do both Homeownership lending and Multifamily lending.

The NIBP expires at the end of 2011. According to Mr. Deaner -- which you'll hear in a few minutes -- MHSA funds probably are fully committed and closed and out the door by early 2013. So the question is, what do things look like after that?

I think in our conversations with the municipal finance world, our world of housing tax-exempt bonds is probably not going to change much in the next two to three to four years.

So what you're going to see are proposals for new ideas, some of which you saw at the March Board meeting, some are new. Some we're sort of pulling together. You've seen them before. We're going to pull them together in a side-by-side with multifamily.

But what we're trying to do is look at different ways to do business and accomplish the mission of this agency going forward. And I think that's what you'll see.

But first, we'll spend a few minutes -- I'm going to let Bruce sort of dominate the conversation on this part, and I'll run the slide show.

MR. GILBERTSON: Okay, I don't know, Steve, do you want to talk a little bit -- I'll just summarize the rating action over the last week or ten days.

I know that the Board members all received the reports. But S & P has completed their review this go-around of our two primary credits -- the Agency's general-obligation or issuer credit rating, as well as the Agency's large single-family whole-loan parity indenture that has some $5 billion of debt outstanding. We call that the Home Mortgage Revenue Bond indenture.

The G.O. rating of the Agency was dropped one notch from A, to A-minus. It was removed from CreditWatch for negative outlook. And it was put simply on negative outlook, which is a positive step, all things considered.

Clearly, that's a rating that we can continue to function, and the financial operations of the agencies will not be impacted significantly.

Then late last week, the Home Mortgage Revenue Bond indenture that has exposure to the insurance fund that you've already talked about was downgraded three notches, from A to Bbb and put as a stable outlook. You know, hopefully we found a resting spot. That would be ideal.

But, again, even at that lower-level rating, the bonds will trade effectively, the program should work okay. And we're thinking that's a positive development.

The Moody's action is, you know, in the queue. We believe they'll probably go to committee next week. Clearly, before the end of next week we think we'll have some rating assessments and updates that we will share at that time.

Again, for what it's worth, my opinion is, I think we're going to be in the same general range as where S & P ended up.

Certainly, as you've heard from us before, there are some rating triggers. And if we fall below certain levels, it does cause kind of a domino effect; but I don't believe that's going to be the case.

The other good news is earlier today, we did close $180 million bond financing for a single-family program. $72 million of these bonds were sold in the marketplace. $108 million were program bonds out of the NIBP program. This will finance about 800 to 1,000 homeowners that have reserved a loan through our program.

All of these are in the form of an FHA loan pooled into a Ginnie Mae security. And as many as $80 million of those proceeds will be put to use by June 1st. So another $100 million will go out over the next couple months.

With that, as we develop the business plan this year -- and this is similar to the approach we took last year -- we thought we had to kind of revisit --

MR. SPEARS: One housekeeping item.

So, the slides you're going to see on the screen closely follow what you read through in your binders, but we did put the summary slides in. So I encourage you to use the handout that you have in front of you rather than trying to follow along, because we did add some pictures here and there.

MR. GILBERTSON: So as we developed -- again, Steve selected a handful of slides. But as we kind of start talking about what kind of business we can do over the next year or two years or five years, for that matter, we kind of have to take an assessment of the marketplace, the economy in California, and what are the significant indicators that might impact loan production, our ability to offer loan products at attractive rates. There are many things that need to be discussed.

This is a simple slide that gives you some sense of what we believe the interest-rate markets might look like over the next two years; and then some simple indicators as it relates to housing and the California economy.

So, just to make sure we're all on the same page: These are fiscal year quarters. So Quarter 1, under 2011-12 is the quarter that begins on July 1 of 2011 and runs through the end of September 2011.

Likewise, Quarter 3 in the 2012-2013 fiscal year is the first calendar quarter in 2013, from January 1, 2013, through March 31st, 2013.

So we simply looked at ten-year Treasury as a big indicator of where mortgage rates are going to go. It's much lower than 3.73 today, I'll tell you. It's about 3.15 or 3.20. I don't know exactly where it is this morning. But this is a forecast from the Anderson School at UCLA of where they think rates are going to go.

Pretty flat, to me. It generally rises over the course of two years. Not a surprise. I think we know that rates will probably tick up. I don't think it's at that level.

At the short end of the curve, rates are probably going to rise more rapidly as evidenced by the federal funds rate. Pretty consistently low. It's been hovering around 25 basis points for the better part of two, two and a half years.

It does look like it's going to pick up as you get into next year; and, of course, as you approach the election in 2012, people are thinking that may be the time when rates really try to make a significant move.

The Domestic Municipal Bonds Index is, again, the Anderson forecast index for municipal bonds. It probably parallels a long-term MMD, which is a Aaa general-obligation bond index for municipalities. Not really relevant to housing bonds, but it's something from which we can expect to pay a spread above that index for housing bonds.

And then internally, we've developed our own housing bond cost or index; and you can see how we've projected those rates to kind of parallel the movement in the ten-year Treasury. And, again, we're building that index based off of actual bonds sold in the marketplace, the bonds that we sold two weeks ago, and a spread to U.S. Treasuries.

To the extent that the relationship between the ten-year Treasury rates and our housing bonds change over time, it will either be better or it will be worse.

Certainly, it can't be much worse than this chart illustrates. And I'll go over that here in a moment. Because what you need to do is -- that's our funding cost, the housing bond cost. And if we just jump out to the fourth quarter of 2012-2013, our projection is that our funding cost achieves a bond yield of 6.35 percent. But we are in a mortgage marketplace where lenders are offering 5.71 percent.

Clearly, that doesn't work, so there's got to be some change in the relationship between tax exemption and taxable debt. I don't know when that will occur, but I would expect that to occur at some point.

The next portion then is, you know, what are some indicators that tell us the economy might be improving in California? We think unemployment is key. Unemployment is going to be key, we believe, for the current borrowers that are in our loan programs, where we have a high percentage of delinquency today.

And this generally shows that there's an improving trend; but it does take a while to even get below 11 percent unemployment in California. And that won't occur until next calendar year.

And then as you get out into 2013, perhaps we get below 10 percent. It's going in the right direction; it just probably isn't going downhill fast enough.

And then residential building permits. This is in anticipation of new construction initiatives in the housing sector. Again, pretty slow over the next 12 months, but it looks like it might pick up as you get into the 2012-2013 fiscal year.

MR. SPEARS: So a couple of good-news and bad-news things on this.

Obviously, we'd be happy for unemployment to go down. That makes our single-family portfolio perform better. And that would be really marvelous, and more of our borrowers would be able to stay in their homes. That would be fabulous.

The two lines that cause heartburn are the housing bond costs and the conventional mortgage rate. You can see that after the New Issue Bond Program expires, that's, if you will, upside-down. Our cost is higher than the market rate.

So that's why, on the homeownership side, we're going to be trying to develop programs and models of -- I'm sorry, loan products that are non-bond-funded, so that we can offer something that is not out there for first-time home buyers, and move forward.

MR. GILBERTSON: One more point. I think it would be a failure of mine if I didn't emphasize this, that if you compare the housing bond cost for the second quarter of 2011-12 to the conventional mortgage rate, 2011-2012, you can see now, during this period of time, over the next six to seven months, we do have a financing mechanism that might work. That's attributable to the New Issue Bond Program that goes away at the end of 2011. Because the jump into the third quarter, as you compare those two, we unlikely will have an ability to attract capital at a rate that we can finance any significant amount of loans.

A couple other general assumptions to go over. As we built this, we had to assume that we are going to have adequate funds and capital reserves to fulfill our ongoing obligations. So we've done so.

The Agency liquidity directly related to credit ratings. And we'll go over that in a little more detail later. But we believe that we have sufficient liquidity to fund all of the Agency's operations and obligations that we can see over the two-year time horizon.

In many respects, the work that we've done over the last two years has taken away some of the noise around things that could happen to us. Of specific note, is the Bay Area Housing Plan financing that, thanks to Katie and others at the Treasurer's office and the State of California, was successfully financed by another state entity in February of this year. Extremely helpful to the Agency.

The other thing is that the tax-exempt municipal bond market, as we've been pointing out, may not allow a competitive bond rate. We may not be able to finance the loan programs as we have historically.

And to the prior discussion and the adoption of Resolution 11-06, here is the notion that the policy of the Board is that we will only use variable-rate bonds in limited ways. And those two bullets are to refund existing variable-rate bonds and to finance new multifamily conduit bond programs where the Agency has no risk exposure.

Those bullets are consistent with the financing regulations adopted by the Board in January, and then slightly amended in March as well.

So this is where we're introducing the audit recommendation into the business plan.

MR. SPEARS: A couple other quick items about liquidity. Again, unfortunately, we're not going to have a housing fund cash to fund programs that we have in the past. That's going to continue to be a problem this year. And we'll try to revive those programs in the future as cash becomes available.

But on the good side, we do still have state G.O. bond money available for downpayment assistance. And we're going to continue to use that. And Gary will talk about that when he talks about the homeownership programs.

So a couple things we want to put in. These are pictures that we used yesterday -- I'm sorry, it's not as visible as we'd like. We met with the United States Treasury folks, and Fannie Mae and Freddie Mac were on the phone, and we went through our credit presentation with them. And, of course, the key thing that everyone is worried about is the single-family portfolio performance.

And so we thought we would show you some tendencies that we're seeing.

The first slide that you see here deals with folks who are in the 30-day category. And the tendency of people to move out of the 30-day delinquency category into the 60-day delinquency category seems to be heading downhill. And that's, obviously, a good sign.

We don't want to place too much reliance on that. We'd like to see actual -- you know, better performance down the road.

The other thing is that, who is in the 30-day category who they're catching up and getting current again. And that could be because they're getting a loan modification, that could be because they returned home from a vacation and remembered that they forgot to make their payment. It could be a lot of different things.

Over the entire study period, from December 2008 until now, it's still a little inconclusive. This is a regression line for the entire period.

What I'm encouraged by is what you see at the very end there, where that's moving to a higher percent of people that are getting current after they've been

30 days.

So the next is -- and, again, I apologize, the slide is a little light on the eyes -- folks that are moving from the 60-day to the 90-day category, that's trending downward, especially in the last two or three months of the study. And folks that are moving back from 60-day, back to 30-day -- and here again, that could be for a lot of reasons -- it's a little less conclusive, but that is climbing.

The other thing that we should note before we move on, and that is, we have stepped up foreclosures. We had a couple moratoriums while we were developing loan modification programs, and moving our loan-servicing operations and REO operations to West Sacramento; and we developed a backlog, not unlike a lot of other servicers around the country.

It also took a while to staff up and move some staff around to deal with this and train them. And that took a little time and all that. We did build up a backlog.

So what's happening, I think, is a couple things: Our loan-modification program is working. We have fewer people going into that deeply seriously delinquent category. And we've stepped up foreclosures. We've simply tried to be honest with borrowers about their inability to make it, and try to exit as gracefully as possible; but we've moved forward.

CHAIR CAREY: Steve, do you think that the Keep Your Home California has anything to do with the number that are returning to current?

MR. SPEARS: It's a little early to tell. We have done a lot of loan modifications. And one of the goals you'll see for next year and the following year, is to try to increase the number of borrowers who are sustainable, and they continue on with payments.

$2 million of Keep Your Home money has gone into the Home Mortgage Revenue Bond indenture so far. That's, you know, hundreds -- well, we've done hundreds of modifications. We were doing them before Keep Your Home California came along; but we really have ramped up on that, from the pilot program that started late last summer, all the way through until now.

It's a little hard to tell -- it has to be part of this. It just has to be. Because once you modify a loan and people start making their monthly payment, they move out of the category. They're one of these folks who are going from seriously delinquent, all the way back to being current again.

The secret is to keep them current and keep them in a payment that they can afford to make for -- you know, on an ongoing basis.

So what we have on the next is, this is the statistic that the rating agencies focus on, frankly. In the 60-plus category, the bars are the number of loans. And this is what I try to focus on because this represents the dollar amount, if you take this and multiply it by an average loan-loss amount, the dollar amount of exposure that we have.

The percent delinquency is represented by the blue line, and that's on the right axis. And you can see that that's gradually trending down.

I, frankly -- the only way that this can happen, for it to trend down like this, is that fewer people are coming into this category than are going out in the form of foreclosures and short sales and that sort of thing.

So we like the trend. I just want to be cautiously optimistic.

I think the major reason for the significant decline from the peak in January of 2010 or February, of somewhere around 2,100 loans, down to 1,500, is because we've been doing a lot of foreclosures.

I wish I could say that folks are all now current and no one's going into the "delinquent" categories; they are.

CHAIR CAREY: So the number of loans in total is shrinking, which drives the percentage up?

MR. SPEARS: Well, for the math lesson of the day, this percent delinquency is not declining as rapidly as it went up. And the reason is, when a loan falls out of the portfolio into foreclosure, you remove it from the numerator and the denominator. So, of course, this is going to trend down more gradually than it went up.

CHAIR CAREY: So the same number of delinquencies is the higher percentage of the portfolio?

MR. SPEARS: Right, right.

Let me stop there while you're thinking of questions to ask.

Genworth is key to this whole thing. And I'm sure you all heard Genworth was downgraded in February again.

Chuck will tell you that our relationship with Genworth is very, very good. They have not, on a consistent basis, denied claims, played "gotcha," any of that sort of thing.

I think we did a little study not long ago -- six months or so ago, and I wanted to know how many claims have been denied. There are somewhere in the neighborhood of 20 to 25, out of all the claims that we had filed. And the reasons were mistakes. Just, it was someone who used to have Genworth mortgage insurance but, you know, was able to cancel it because of the 80-percent rule. And we just filed by accident.

And I'm very encouraged by that. And their claims-paid ability seems to be strong. Their parent company, Genworth Financial, continues to contribute capital to meet their obligations. So we're encouraged; but that is key to this whole thing.

Are there any questions?

(No response)

Mr. SPEARS: All right, great.

The other thing that Claudia mentioned in her opening comments and that we focus on daily, is our liquidity projections.

And I'll let Bruce talk to that topic.

MR. GILBERTSON: Okay, so what we've tried to do -- you've seen similar projections in the past. We did go out over a longer period of time this year. So this covers our liquidity projection between now and the end of 2015. So four-plus years.

You can see the beginning balance as of March 1st was $238 million.

There has been a revision to that. And I think, you know, fairly significant, so we ought to talk about that.

That, today, is probably closer to $210 million, for two reasons. We've posted more collateral to our swap counterparties for two reasons. Interest rates from March to today have fallen rather dramatically. And so about $20 million of that change is attributable to the falling interest rate environment, which means the market value of these financial contracts has increased, and our requirement to post collateral increases as well.

And then, of course, when S&P downgraded our G.O. credit rating from A to A-minus, our threshold -- because we post collateral above the threshold amount -- went down. And so we had to post about another $10 million -- or $20 million as a result of that. So in total, it's $30 million. We have about $210 million of liquidity today.

I'll quickly run through what the components are of projected income, and then how we use our liquidity over the next four-plus years.

We have a number of loans in portfolio that are no longer encumbered by bonds. So every time that we get a monthly P & I payment on those loans, you know, it goes into the General Fund reserve of the Agency.

So for the ten months, from March 1 through the end of 2011, that's about $28 million in P & I payments that we expect to receive. You can see in 2012 it's $39 million. It kind of goes up, and then it does fall off as some of the portfolio gets to term.

A lot of these are the old multifamily Section 8 loans that the Agency made in the 1980s -- 30- and 40-year terms, but they have longer to run, from a loan perspective.

We receive a number of fees for administrative fees out of bond indentures because of our involvement with the loan and bond programs. We have servicing fee income from the loans that we service in-house. We have investment income as well from -- not that it's very great these days, considering what we're reinvesting at. But we do get some investment return as well.

The reimbursement of swap payments, you know, it's an offset. So the most important thing to take away here is that the $41 million that we receive up here is the $41 million that we're using down here as an advance to pay swap counterparties. They do net each other out. This is our projection of what those amounts might be, you know, over the four-plus years.

And then the last component of sources of liquidity is the amount of money that may come out of bond programs, that are excess to the needs to pay debt service and the like. And those are projected here on that last line, $5 million this year, approximately $10 million over the next four years.

And then on the expenditure side, you have operating expenses as one of the uses of liquidity. I'm not sure that these are still going to deliver; but potentially, we have an obligation to fund $1.5 million of loans out of this capital base.

We've set aside some money to pay for financing costs related. For example, the bonds we closed today, the Agency made a contribution to that to pay the cost of issuance and to fund a capitalized interest reserve of about $3 million. So that's in there, as well as some additional money to pay G.O.-backed bond debt service to the extent that's needed over the next four years.

And then the last item is, we still have one loan outstanding with the State Treasurer's office under the Pooled Money Investment account loan program. Our agreement with the Treasurer's office is that we'll repay that within two installments over the next 12 months or 15 months, thereabouts.

But the picture then is one that the liquidity projection is actually rising over the next four years unless there is some other unexpected event. What are the things that could be most -- collateral posting to swap counterparties would be the most significant. As you heard just from March to May, about $30 million has been posted.

We do believe that collateral posting over the next 18 to 24 months is going to fall dramatically as the swaps naturally amortize. And if interest rates rise, as we showed you in the table before in economic indicators, the market value of those swaps will fall dramatically as well.

Any questions on the liquidity projection?

MS. CARROLL: We're still waiting for Moody's?

MR. GILBERTSON: Yes.

MS. CARROLL: And is there anything that Moody's could do that would negatively impact the liquidity or because we're safe with S & P, and that rating is set, does that mean we're pretty safe?

MR. GILBERTSON: Well, I think -- let's go to the next slide because this will demonstrate exactly where we are, Katie.

The Board has seen this slide before. So we have three columns that depict the three central credits that the Agency is concerned with: Our General Obligation, HMRB, and the M.I. fund.

I'm not going to talk too much about the M.I. fund. You've heard the audit results and, again, very low ratings. And, again, we don't think that it's going to have sufficient liquidity to meet all of its obligations prospectively.

But on the General Obligation rating off the Agency, Moody's is still at A2.

The rating trigger event is really characterized by the gray bar. So if we fall below A-minus or A3, then we're going to have a significant obligation to our swap counterparties.

MS. CARROLL: And that's by either rating agency?

MR. GILBERTSON: Either rating agency, correct.

MS. CARROLL: It doesn't have to be both?

MR. GILBERTSON: You know, I know that Moody's, having talked to them many times in the last three months, they were very concerned about what S & P was going to do, because S & P could put us in a rating level that would trigger this event. They were quite relieved when they heard where S & P ended up.

My expectation -- they haven't told me anything -- is that we're going to be in the same, general area. I don't really anticipate that we're going to fall into the BBB category.

And similarly, HMRB, we're at A3, quite a bit higher than the BBB rating that S & P assigned to the HMRB indenture. Again, everything works financially, as long as we stay above BBB-minus/Baa3.

MR. SPEARS: All right, if there are no further questions, then we'll move into the next phase, and that is on the business plan priorities. I think you'll see some very familiar Easter-egg colored charts here.

The only difference in the "survive, revive and thrive" blocks, Ms. Peters, is that with the economy, the real estate markets and, frankly, the bond markets muddling along, if you will, we've had to extend all this. I think we've -- this, by the way, starts with July 1st, 2010. So these yearly numbers are starting with July. So we've had to extend the "survive" mode out into the first of 2013.

And Claudia and I discussed this, and I tried to figure out a way to shade this in some way, and that there might be if we had some things turn around. If unemployment drops faster than we thought, and the economy comes back faster than we thought, and the market comes back faster than we thought, all of those things help us get into the "revive" mode faster.

But I think you could start to see us accomplishing some of the things in the "revive" mode, you know, in the 2012 era.

I'm not sure about the return to profitability. That all hinges on the performance of the single-family portfolio. It hinges on the extension of the temporary credit liquidity facility that we have with the U.S. Treasury, which I might say, that we are in discussions with them, and we've requested an extension beyond the end of 2012.

So there are just a lot of "ifs," so it's very difficult to look out into as far as 2015. But I just think, in general, this is all going to take a little bit longer than we originally thought two years ago.

All right, so we're going to -- we're suggesting that the Board keep the same priorities that were adopted last year. It's exactly the same slide, I believe.

And I think, though, towards the bottom, what we want to do is look to other partnerships with other housing agencies and funding sources, both local and state, look for new business opportunities.

Obviously, what's key to this, if we want to be in the lending mode, is to look for non-bond-funded ways of doing business. And that's what you're going to hear a little bit more about.

MR. REYES: Would this be a good time for a question?

MR. SPEARS: Yes, sir. Shoot.

MR. REYES: If you go back a couple slides --

there you go, Easter-egg colors -- excuse my ignorance, it's my first meeting here, and I probably should be listening instead of talking, but when I look at your three colors and your "survive, revive, and thrive," and you mention it's similar to what you did last time, how often would this get updated? Will this be next year's also?

I'm looking at this as a five-year plan or a two-year plan -- actually, it was a five-year plan at 2015. I'm looking at "survive," and you have "maintain credit ratings." And the credit ratings that we have aren't so hot right now based on what just happened. And I'm looking at the "revive," and I don't see anything that says improve credit ratings, nor under the "thrive," to improve credit ratings.

So given that a credit rating just didn't do so hot recently, when would be a good time to update this on the either "revive" or "thrive" mode to improve the credit ratings?

MR. SPEARS: Right now, we can add that.

These are priorities that -- we had several sessions last year -- two in February, I think, and then our March meeting -- and we, as the Board, hammered out just some fundamentals about how we're going to move forward, and they adopted the five priorities that you see there.

MR. REYES: Right.

MR. SPEARS: And they adopted this approach here. And just fundamental tenets. I don't think you're going to see us move into the "revive" mode without ratings beginning to come back up again.

It's sort of a result of doing all these things that you see bulleted here.

MR. REYES: I guess, I'm looking at it, in 2010, where it says "survive," about maintaining credit ratings. And since then, the credit ratings went down.

So the question, I guess, is more to the Board: Does the Board have any interest, or do you just keep it as is and move along, I guess?

Again, this is my first meeting.

MR. GILBERTSON: Just a couple of other observations, I think.

One is, the intention of the "maintain," is to maintain it above that gray bar that I showed on the one slide.

And I think as it relates to improving credit ratings, the bond indenture that we closed on this morning is an Aaa-rated indenture from Moody's.

So we can establish loan and financing programs that have superior ratings than these credit ratings that are extremely important to the Agency to tie into the viability of the Agency going forward.

So I think we're doing that. We've gotten the message. We've talked a lot with the Board about the type of loan program. And so if we don't have real estate exposure, as we don't in a Ginnie Mae-backed bond indenture, we can achieve an Aaa rating. And so Moody's reaffirmed that again as a part of the closing today. So it's a little bit of both.

The focus, I think, here is on the G.O. rating of the Agency. I personally believe stability is going to come first; and it will be a slow climb back to improve those ratings, unfortunately.

MR. REYES: Okay.

CHAIR CAREY: And I think that the document's completely flexible. I think it was a way -- and it was that work session we had in Burbank a couple of years ago. It was a way to define the Agency's focal point for the next few years by recognizing we couldn't do all things at once, that we couldn't be doing the new stuff -- and I'm just saying, if the Agency survived -- which it is doing -- it would be a great mark of success in the current environment. And so it could be adjusted in any way.

MR. SPEARS: They are shorthand for some very long discussions that were had last year.

CHAIR CAREY: Yes.

MR. SPEARS: And Bruce is right, this "maintain credit ratings," it's a shorthand way of saying, maintain them above the cliff levels of A-minus for the G.O. and BBB-minus and above for the HMRB.

So moving on, we're moving into the homeownership area.

And we'll bring Gary up.

And here again, what we're going to focus on here are new ideas, new products.

You saw some of these in March. And we're going to tell you what we're thinking about. But I think the ask of the Board is in the business plan, is that we pursue all of these. We had focus groups. We got some reaction from folks out there in the field, and implement the ones that are the most successful.

Obviously, I think it would be difficult for staff to do, implement all of them, all at the same time. So we would probably do them in sequence. But that's the ask of the Board, is that we move ahead with these, we implement them, and in the order that we think the market would be accepting them.

So I'll let Gary talk about these slides on homeownership, and then we'll try to wrap that up.

MR. BRAUNSTEIN: Thanks, Steve.

Good morning, Board Members.

These products that you'll see are in development and under consideration. And we're incorporating them into our business plan with some forecasted numbers that you'll see in a few slides in a few minutes.

The conventional loan program, as you see, we're in discussions with Genworth Mortgage Insurance. As you may or may not know, most mortgage insurers nationally do offer loan-to-values insured up to 97 percent. However, many of them currently in the sand states limit those loan-to-values to 95 percent.

Based on market conditions, a few more mortgage insurers are looking at the sand states and increasing the loan-to-values that they now will be insuring; but in many cases, they limit it to counties within the sand states that I just mentioned.

In this case, we've been in discussions with Genworth, and they've offered a proposal to offer CalHFA an exclusive arrangement to a loan product that they would ensure up to 97 percent, with no county restrictions. So it's a product that we can offer throughout the state of California.

Genworth will make that product, and they're offering to us exclusive and not offer the same mortgage insurance to the private sector throughout the state. So there is an exclusivity that we'll be enjoying with Genworth on this type of arrangement, not only within the state, but within the private sector, not being able to access the same thing that we can as an HFA.

Their FICO requirement is 720. That is significantly higher than what our typical borrower's profile is. Our typical borrower's profile for a first-time home buyer has been averaging around 690 or 694 recently on the FHA product that we have launched.

So the marketing efforts for this product would be slightly different than we've done in the past, mainly because the borrower's requirement of a higher FICO. And we would reach out to perhaps a different profiling borrower that still is mirroring the low- and moderate-income borrower.

The other components are straightforward. A borrower would need to put in 3 percent of their own funds on a loan-to-value that's higher than 195 percent, two months' principal and interest reserve for safety. It will include job-loss protection.

And in this particular case, the product's not offered through a wholesale channel of the brokerage community. It would strictly be through our lenders that offer a retail channel.

We could develop this either by the use of bond financing or through the capital marketplace, in a secondary market, market execution, that would be non-bond specific.

MR. SPEARS: Let's see if there are any questions.

MR. BRAUNSTEIN: I was going to say, any questions on that so far?

CHAIR CAREY: Questions?

MR. SPEARS: What we're going to do, we'll talk about all the different products. And then we did have focus groups that Gary and Ken Giebel put together questions and got groups together around the state. And we'll tell you their reaction to these sort of at the end of the presentation.

MR. BRAUNSTEIN: Jonathan, it looked like you had a question?

MR. HUNTER: Well, I just had a comment, sort of looking at the county-by-county reports in the back of the folder. And when you talk about no county restrictions and you want to have a truly statewide program, it seems to me that part of the improving picture for CalHFA, is that a smaller percentage of our portfolio is in those counties that have the highest rates of foreclosures. And not surprisingly, those are also the counties that have the highest unemployment rates and the biggest hit on property values.

So while I understand that we're a statewide program and it's nice to have a statewide product, I think we need to be very careful about -- I think the underwriting needs to take into account not just the individual's FICO score, but the county in which they live, and what's happening county by county around the state.

MR. BRAUNSTEIN: That's certainly something we could consider, and restrict the product to counties that we think have more viability.

The case could be built that from a statewide scenario, you get market values increasing and unemployment stabilizing. But it's certainly a good point, and certainly something we can incorporate if so chosen.

MR. SPEARS: Okay, that's an excellent point.

CHAIR CAREY: What's the impact of Genworth's stability, or lack thereof, on this?

MR. SPEARS: Well, Genworth is in the same boat that we are. They --

CHAIR CAREY: Very much.

MR. SPEARS: They need to move -- on a

going-forward basis, they need to put new good-performing policies on their books, just like we need to put new good-performing loans on our books.

So they're very interested in, you know, getting back into some of these markets; and they see a future in California. They want to do this cautiously. We've been a really good partner with them.

Obviously, they're not going to see huge amounts of volume compared to what they do nationally; but we think it's a good partnership. I think it's an excellent sign with regard to everything else we're doing with them.

So they're just gradually getting back into this. And the value-add will be, if you will, that we're offering this more affordable product at a higher LTV to people with relatively high FICO scores, which we'll talk again about in a few minutes.

MR. BRAUNSTEIN: They did mention before they offer this proposal to us, two things: One is, their risk analysts looked heavily into the California marketplace. They also looked at our delinquency as an HFA compared to the private sector, as well as to the other HFAs that they have across the country.

I don't think they would be offering us this product if they felt that the California marketplace statewide was not improving as a state. Though separate of that, our own challenges with our counties, as you mentioned, Jonathan, is certainly something we can consider.

But from an insurer's standpoint, looking at a more global picture of the private sector and ourselves as an HFA, they wouldn't necessarily be offering us this product if they didn't feel the strength of California's marketplace warranted something like that.

Why they're offering it to us as an HFA is that historically, in the bigger picture, an HFA's delinquencies throughout the state as well as nationally, has been lower than the private sector. So it's something that they've considered not offering to private lenders throughout the state of California, and choosing CalHFA as an optional partner.

Okay, any other questions before we move to the next one?

MR. SPEARS: Yes, let's go to the MCC. Now, this is something we have not offered before.

This is offered at the local level. There are several MCC programs around the state, but they're not common.

You do have to apply for CDLAC allocation for this. It is a way for us to use CDLAC allocation that's been allocated to us that we may not be able to use because of the lack of the sale of bonds, like we have in the past. So the question is: All right, so what's the big deal? Why did we think this would work?

Well, there is no statewide MCC program. So if you thought about this, this is just dropping down in the state. It will be available around the state to anybody. But what Gary's going to tell you about, is that we're going to make it something unique. A unique aspect of this, to try to attract people to our loans with this together; and then that will be a loan that will be marketable in the secondary market. So we're thinking about this as one of the non-bond-funded programs.

MR. BRAUNSTEIN: As Steve mentioned in our focus group -- and we're expecting a survey back in the next couple of days on this particular product that I'll be mentioning -- we reached out to our localities and to the nonprofits. As Steve mentioned, MCCs are often offered throughout the localities throughout the the state. Currently, the State doesn't have an MCC program. And we certainly, before we launch a product like this, although it's under consideration and in development, we'd like to get the feedback from the localities and the municipalities relative to their comfort level of the state offering an MCC.

But conceptually, the mortgage credit certificate, we could, as a state housing agency, offer it on a state level and include a processing fee for doing so.

As Steve mentioned, we do need to offer it if it's proposed for -- in combination to our first mortgages, we would have to open it up to any lender and any lender's program to pull our MCC to be attachable to their product.

The concept is that we could process these MCCs as a streamlined process for about $500 or $600, and charge that for each MCC. The thought was that if our lenders and borrowers chose to use an MCC with our first mortgage product -- an FHA product, for example -- that we would waive that $500 processing fee to allow the lender to be working with a borrower to suggest our product, perhaps over the private sector.

The value benefit is, the borrower is not charged the processing fee, the lender can submit both an MCC application and their FHA application to us, and we could do it in a combined package type of environment for a value benefit to the lender, as well as to the borrower.

The concept generated is, strictly, if we are finding ourselves in an interest-rate environment where we are flat to the marketplace and if we're offering an FHA loan that is similar in interest rate to what the market can provide, we've lost any value-add for our lenders to use our product versus doing it themselves.

Attaching the MCC to our product, if we're at market rate or slightly above or slightly below, we are anticipating that being the value-add for our lender to use choosing our first mortgage FHA product.

And, of course, we'll be getting the results back from the survey in a couple of days from the localities and municipalities.

Any thoughts or questions on that?

MS. CAPPIO: I have a question.

Is this a one-time program? Once you do it, you can't do it again?

MR. BRAUNSTEIN: Well, they could do it in a -- it has a three-year timeline for their use of applying the 20 percent credit to the interest rate that they've paid.

MS. CAPPIO: Okay.

MR. SPEARS: Now, there's another one-time aspect of it, and that is, if we sell bonds and we use CDLAC allocation to do that -- within the first ten years, right, Bruce? -- if someone pays the loan back to us, we loan it back out again. We can get multiple use.

Once you issue a mortgage credit certificate, your --

MS. CAPPIO: Done.

MR. SPEARS: -- your allocation, your cap is gone. And that's one of the reasons why we haven't offered it before.

But here, we're in a situation where we may have unused allocations. That would be a shame, frankly.

MS. CAPPIO: Yes, absolutely.

MR. SPEARS: And so we're just trying to come up with a way to have something that nobody else offers, that would make our FHA loan more attractive, and bring some extra volume.

MS. CAPPIO: So the timing here -- the strategic -- there's a strategic piece to this, potentially?

MR. SPEARS: Well, it could be an ongoing -- because we get CDLAC allocation every year, so we could get more allocation next year and continue this program in the year, next year, next year.

Or if the bond market improves down the road and we return to as much bond volume as we have in the past, we could move away from this and go back to bonds.

MS. CAPPIO: Okay.

MR. SPEARS: It's something that we could sustain as long as we continue to get CDLAC allocation for it down the road.

MR. BRAUNSTEIN: And the key component of it, by offering it MCC, the first mortgage that we would be offering in combination with the MCC would not be financed with bonds.

MS. CARROLL: You said that it is not exclusive to CalHFA. So does that mean that other housing agency --

MR. SPEARS: Local housing agency --

MS. CARROLL: -- or local housing agency can offer --

MR. SPEARS: Yes, there are several around the state. They're local. They're in their area.

MS. CARROLL: Right, right.

MR. SPEARS: But there is not a statewide program in the state.

MS. CARROLL: All right, but the locals can offer this program as well is what you're saying?

MR. SPEARS: Right. And they do. And they've gotten allocation.

MS. CARROLL: Okay.

MR. SPERS: And it's just not widely known. And when we get to the focus groups, we'll talk about that a little bit more. It's a bit of an unusual product. It works for some people if you qualify, but it's not widely used.

MS. CARROLL: Thank you.

MR. BRAUNSTEIN: An example of that, Katie -- just a moment -- is if one of our lenders chooses a locality's MCC program and wishes to use their own first-mortgage product and an MCC through the locality, that's a relationship between the locality and the lender. If they were to use an MCC product that we're offering, they could do that as well. We would process the MCC for a processing fee of $500. They would use it with their own first mortgage.

If the lender chose to use our first mortgage FHA product and the MCC product, we would be waiving the processing fee.

MR. SPEARS: Okay.

MR. BRAUNSTEIN: Okay, moving along.

MR. SPEARS: Yes, let's move through this one quickly, and then we'll get to the focus group findings, and then we can go to the volume.

MR. BRAUNSTEIN: Okay. This next product is a way for us to offer an exclusive down-payment assistance program without sourcing it through our own funds for the use of bonds. And this is taking advantage of the capital market by our first FHA product being sold in the secondary market, at an interest rate that is slightly above market, which would warrant the capital market to provide us a premium for the sale of that FHA loan. And the premium of that FHA gain on sale would help us source 3 percent subordinate down-payment assistance program for the borrower.

Somewhat similar for the Board members that have been with us long enough to remember the CHAP program that we had, which was a down-payment assistance program that we offered through our HAT funds -- through internal funds of the Agency. And there was a 3 percent subordinate second with deferred interest. It was very similar to our CHDAP that we have today that is proposition-funded, but it was our own funds.

This concept is simply offering that same type of subordinate loan; but instead of using the Agency's funds that, obviously, are limited by having an FHA first-mortgage loan, that's priced just slightly above the market, we can warrant a premium return for that product on the secondary market, and be able to source the funds capable of funding the 3 percent down-payment assistance.

By doing that, that down-payment assistance program is not a stand-alone like our current CHDAP stand-alone is. It is exclusive to combining it with our FHA first mortgage. And the combination of the two is sold in the private sector and the capital market.

MR. SPEARS: This is the problem we talked about in March, that your premium -- you charge a little bit more on the rate. That attracts -- and an investor will pay a premium for that, we use that premium amount for the down-payment assistance. And it works really well.

And not to get ahead of ourselves, but when we went to the focus groups, they liked this product very much. They were not bothered by the premium rate. They liked the built-in down-payment assistance aspect of it.

And the good thing for us is that we can use it in a non-bond execution. We can utilize this whenever the bond market doesn't work as well.

MR. BRAUNSTEIN: So a lender would view this product -- just quickly, if I may -- from a standpoint from a borrower who can debt-service a slightly higher FHA rate loan and therefore, though, have a lower cash to be able to close for which the down-payment assistance would give them the borrowing funds to be able to close that FHA product.

MR. SPEARS: Right. It's another tool to have in the toolbox kind of a thing.

So we went out, did some focus groups.

Here's really way too much of a summary. But these were hours and hours of questioning folks.

The bottom line is that this FHA with the Silent Second, this premium-priced FHA loan was the preferred product, actually.

Their comment about the 97 percent, was that -- and the 720 score, by the way, is a requirement by Genworth at this point -- is that that's probably too high. We would not see very much volume.

We haven't shared this yet with Genworth because we wanted to talk to you guys about it first. But we plan on going back and saying, "Would you mind reviewing this? This is what we've heard from the field."

And if they're not able to do that -- just financially, if their risk managers can't do that, we would probably offer it, but just not expect at this point in time, with the economy the way it is, a lot of volume from that.

And then finally -- I mean, the last two things, FHA/MCC combined program, we got a lot of positive comments from the people who knew about MCC programs. The problem is that it's not widely known. So the item there would be, we're going to have to do a little education to make that work. But if we do that, it will probably work well in certain parts of the state, especially where it's not available at the present time.

And then finally, the CHDAP program is overwhelmingly popular. Folks really like it.

The problem that we're having now is, as we've had to increase our rates -- because some of our rate advantage went away, even with the New Issue Bond Program -- we're getting closer and closer to the market on an FHA loan. So what people are doing now is, you know, a stop at CalHFA, as efficient as we are, is an extra stop in the process. And they're just saying, "Well, I'm just going to use that CHDAP product with my own FHA loan and just put it through." You lose the rate advantage and we lose the CHDAP down payment to the others.

So with apologies to Mr. Giebel, that's quite a summary of some very, very hard work that he and Gary put in, going around the state.

But that's the bottom line. That's the bottom line. The premium-priced product is number one. We're going to have to talk to Genworth about the 720 FICO score, if the Board is comfortable with having something less than that. And we're going to have to do some education on the MCC product.

So any questions about the focus group, folks?

MS. CRESWELL: Who did you talk to in the focus groups?

MR. BRAUNSTEIN: They are loan officers that were very familiar with CalHFA, long-time supporters, and realtors.

MS. CRESWELL: So not local governments?

MR. BRAUNSTEIN: We have another survey that's going out to the local governments, that we should get the results back sometime next week. But we're sending it out to all of our localities who have approved loan programs with CalHFA currently.

MR. SPEARS: And I'm glad you brought up realtors and who were there, because traditionally we've just worked with our approved group of lenders. We need to do more work with real estate agents and brokers. They don't know enough about our program. And we're going to be reaching out to them in a more focused way.

MS. CRESWELL: But also, I think local governments, it's important, particularly on the MCC program, because I understood in years past, there was a tension between the bond allocation between CalHFA and local governments.

And so have you talked about that?

MR. BRAUNSTEIN: Well, like I said, we have that survey going out tomorrow, directly to all of the other government agencies. And we should get the results back by mid next week.

MR. SPEARS: We may get some pushback from some of those programs that we're trying to compete with. We're not. We're trying to drop this down in the state where it's not available. So we may have some -- not fence-mending, but education to do on that. It's possible.

But we do have really good partnerships. We have the HPP program, where we partner with hundreds of local governments for their own down-payment assistance already. So it's just a matter of focusing that partnership and educating and maybe expanding it, which we're -- that's the overall.

So, quickly --

CHAIR CAREY: Steve?

MR. SPEARS: I'm sorry.

CHAIR CAREY: Excuse me, we've got one more.

MS. PETERS: One more question for those of us who aren't as familiar with MCC programs.

I was going to ask a question about local governments. What conflicts, or bumps in the road do you anticipate having to smooth over there? Are we directly competing with them? Is our $500 waiver stepping on their toes in any way?

MR. SPEARS: It's possible. I mean, they have these programs that are very small and very -- you know, they're scattered around the state.

So if somebody comes along and says, "Oh, I like that fee-waiver thing, and I'm going to go with the state's program, not the local program," that could ruffle some feathers, it's possible. We haven't explored that.

We have gotten to the point where we've done some basic research on this. We're not ready to go with these things quite yet. We've done the focus groups. We sort of had a pre-kickoff meeting about logistics internally about how we would get this out. If nothing else, there's a lot of computer programming that needs to go on with our loan servicing reservation system. So we're a ways away from that. But it's something I think we'll have to address with them.

MS. PETERS: Yes, it's something I'd like to hear more about before we pull the trigger on that.

MR. BRAUNSTEIN: Sure.

MS. PETERS: Especially in conjunction with our other priorities of building relationships, and restrengthening our relationships with locals and making sure we have a comprehensive housing policy for the state.

MR. BRAUNSTEIN: I think there was about eight key questions that were part of the survey that we are sending out tomorrow, that we're expecting the results back by next week. One of them was their view of a state agency offering an MCC statewide program, which is one of the questions.

So we're very sensitive to their view of this. Certainly, before we pull the trigger, we would be able to assess the results of that survey that comes back.

MS. PETERS: And my other question was going to the Genworth product. In light of the fact that we're predicting somewhere else in the presentation here a home-price decline of another 5 to 10 percent, how much risk do you think we're adding to the Agency here if we're doing 97 percent LTV product and Genworth is on the downgrade?

MR. BRAUNSTEIN: Well, Genworth is still insuring it directly, compared to how we worked with them in the past as a reinsurer for the Agency.

So they are insuring it as FHA is, but they are a private company.

The strength of Genworth is as important as we've mentioned in other parts of our presentation. But they are insuring -- of the product, they are taking the full 100-percent insurance of the mortgage.

MR. SPEARS: There's another aspect of it, quickly, Heather, is that it's going to take us a while to get any of these products up and running, and off the ground.

I think what we've seen as far as prediction of home prices is that they continue to slide for the next two quarters. That they're bottoming out towards the end of 2011 and on into 2012, you're going to see.

So we would begin offering this pretty much at the bottom of the market and that the timing is going to be really important to take a look at.

I think it's a very good point. We need to watch this. And if there really are predicted, continued, dramatic decline, it wouldn't be wise to go forward with this because you'd go from 97 to 110, you know, pretty quickly, which we don't want to do.

CHAIR CAREY: It's just -- to me, the issue with Genworth is that since we are the insured, right --

MR. SPEARS: Yes.

CHAIR CAREY: -- then the insurance is only as good as the insurer.

MS. PETERS: Right.

MR. BRAUNSTEIN: One common thread that we always need to keep in mind, that the business model that we incorporated months ago is an MBS business model. So, you know, real-estate risk does move off of our balance sheet in that business model. And that's a common theme on all of these delivery products to be the same.

MS. CARROLL: So we would be selling the mortgages, basically?

MR. BRAUNSTEIN: We'd be selling an MBS structure, absolutely.

MR. SPEARS: Well, yes, we would. But somebody's going to be taking that risk down the line.

MS. CARROLL: Right, right.

MR. SPEARS: We want to --

MS. CARROLL: We wouldn't want to be irresponsible and --

MR. SPEARS: Exactly. That's my point.

But, so -- just quickly, Jonathan -- we'll bring this back at the July meeting and talk about timing, to have a clear idea.

MS. PETERS: Yes. My concern is whether it's our risk or not, we want sustainable homeownership.

MR. SPEARS: Yes.

MR. HUNTER: Well, and my concern about the risk is, it's a little bit of a circular reasoning, because if we put the risk onto Genworth, but then it's a bad risk, and they're more at risk of going under, and if they go under, it hurts our mortgage.

So it comes back to bite us one way or another if we put them at greater risk.

MR. SPEARS: The ankle bone is connected to the leg bone, and so on and so on.

Okay, all right. So just volume-wise -- and it's very difficult to tell. I'm not saying that these are complete shots in the dark. Gary has really spent a lot of time trying to focus on this. And these are the cases you saw in your board binders. But Case A is probably the most likely, the one that Gary feels the most comfortable with.

Case B is sort of a worst-case, kind of a -- and the most fabulous possibility would be, that the bond market comes roaring back, we do a billion dollars of lending. And I don't think that's very likely. But we will put that out there. And if we did that, we'd be doing CalHFA-issued bonds with FHA loans and some conventional loans at the same time with Genworth.

And I just -- that's probably not likely, but, anyway, so -- I'm sorry.

MR. BRAUNSTEIN: Just one comment.

What you see on the board under MCC, that MCC should be a subset under FHA, because we're not anticipating $178 million of MCC, mortgage credit certificate, in volume. It is an FHA volume number, including a mortgage credit certificate as part of that loan product.

MR. SPEARS: Yes, that's $178 million of FHA loans that we got in the door by using the MCC certificate.

MR. BRAUNSTEIN: So you are looking at $250 million in Case 1 for FHA loan volume.

MR. SPEARS: Right. And then CHDAP and School Facility Fees, down-payment assistance, I would be willing to go out on a limb and say, "We're probably more certain about the use of these loans because we have a lot of track record on that.

So you're going to see, a most likely case, about $500 million of lending first-time homebuyer first mortgages, and about $37 million in down-payment assistance.

And I think that's it. Yes, right.

MR. BRAUNSTEIN: Any final questions?

(No response)

MR. SPEARS: All right, thank you, Gary.

MR. BRAUNSTEIN: You're welcome.

CHAIR CAREY: We're going to need to take a break for a few minutes at some point.

So is this a reasonable place to do it, folks?

MS. PETERS: I was just thinking the same thing.

CHAIR CAREY: Okay, ten minutes.

And then I know this is tough, folks, but we're going to have to power through.

MR. SPEARS: Thanks.

(Recess from 11:51 a.m. to 12:05 p.m.)

CHAIR CAREY: Okay, we are back in session, and we are going to move the agenda.

MR. SPEARS: Mr. Chairman, I'd ask that the Board members turn to page 20 of their handouts of the slide presentation, just to make a couple of points. We've already spent a lot of time talking about the single-family portfolio.

Our objective in the next two fiscal years is to really ramp up loan modifications to the greatest extent possible.

Obviously, we can lead the horse to water, we cannot force borrowers to take loan modifications; but we really are going to try to ramp up outreach and utilize both our loan-modification program, in combination with Keep Your Home California.

Our main objective there is to try to increase sustainability of those modifications from about 60 percent, up to 75.

In loan-servicing administration, we have open hours -- expanded hours, that is -- to later in the night and weekends. And we're going to even expand it beyond that, to the extent we can, with personnel, assuming we can fill vacancies and do that.

And then finally, on the REO front, we're going to try to reduce the holding times and move forward and faster if the market allows us to do that. But it's very market-driven in that area. And we're going to do the best we can.

So sorry to race through that part.

Any question on this aspect of what we're doing?

(No response)

MR. SPEARS: It's very key, and we're very, very focused on this part of the operations.

Okay, then on the Multifamily side, if you could turn to page 23, that looks like this side-by-side that we have here.

I would lead in with a couple of comments.

In the past -- what you see on the left is Multifamily III bond indenture. And we would issue bonds -- we do all the underwriting, loan servicing, asset management, we're the issuer, and we bring those loans onto our portfolio, and they're ours. Margaret takes care of them after that in the Asset Management division. But there are other options for us.

What results in the first column, under the Multifamily III indenture, where most of those loans are, we get an annuity. We get a spread between the cost of our bonds and the interest that they would charge. And that annuity comes into the Agency over the life of the loan. That's been our past.

And so these other alternatives -- one, is that we simply are the issuer of bonds and someone else is the lender. We issue the bonds, the proceeds go to the lender, they loan them out, we get a fee. End of story. We don't underwrite the loans. We don't service them. Margaret doesn't see them in Asset Management. We earn a fee, and off we go.

This is what we've been doing with the proceeds of the New Issue Bond Program over the last year. We're going to do round $200 million of this, or maybe more, and --

MR. DEANER: $290 million.

MR. SPEARS: $290 million of conduit lending.

In the long run, it's not the best alternative from a mission standpoint, I don't believe, or from just an economic standpoint. Because we get the one-time fee; we don't get an annuity. So what we're trying to do is look at some other alternatives here.

I'm going to turn it over to Bob to talk about the last three columns, to kind of summarize what we're talking about. But the ask is this: That we move forward with the development of these products, with these other partners: The Federal Home Loan Bank, FHA, and both Fannie Mae and Freddie Mac are involved in the last column. Move forward with the development of those products and implementation. That's our ask in today's business plan.

So I'll turn it over to Bob.

MR. DEANER: I won't go over the conduit. We've talked about that many times.

The Federal Home Loan Bank is a relatively new concept. Actually, we're meeting with some folks next week to discuss it, to see if it will work.

But how the program would really work is, we would utilize their balance sheet. They would put a letter of credit up against the bonds so we don't have our credit on the bonds for a period of time. And there's a couple ways to do it: You could do it straight as a construction lender, or you could do a construction lender and perm, or I could be the construction lender and you have somebody else on the perm. But in the end, because we are a member with the Federal Home Loan Bank, we could utilize their balance sheet as a letter of credit for any of those scenarios. And we get to underwrite, loan service, asset management, and be the issue of the bonds.

The fees aren't the same as if we were the direct lender. We do get some one-time fees and some ongoing fees, but they're not as rich. But they do give us the ability to fully underwrite our transactions as we have in the past. It makes some fee and spread income.

The next is the FHA Risk Share program. We've had that for years and years and years. We used to lend on that in the eighties. We got away from it, utilizing our own credit. But it is a risk share. It's a 50-50 risk share. It would take a little bit of capital from the Agency if we went down that route.

The start point of that would be our portfolio. We have an aging portfolio that Steve had mentioned earlier.

We had a preservation program that we used for years, where we would allow new borrowers to buy those projects. And we would finance it, and we would get extended affordability, rehab, or deeper affordability in those programs. So we would probably target that first towards the portfolio, and that would get us back to a full spread to the Agency.

There’s a number of projects in the next five years that could utilize that program; but, again, it’s a case of looking at that risk share and working with Claudia, Steve, and Bruce on where we are from a capital standpoint to make that happen.

And then the last is the GSE-supported. There’s really two to three options there.

I’m a previous Fannie Mae/Freddie Mac lender. I did it for 15 years. I know their programs, I know their language, I speak their speak on the Multifamily side.

Freddie Mac is looking through FHFA, the overseer of doing a new potential license called “Duty to Serve” of which they want to preserve affordable housing throughout the country. And for us, it would be for California.

I’ve talked to them about applying for that license when they get final regulation. And that would be 100 percent preservation deals within California. It would be a great fit for us.

We met with them in D.C. in December; and they think it’s a great fit for them. It’s a question of when the regulations are final. And we can go through the steps of obtaining that.

The second is, we do a third-party underwriting for either Fannie or Freddie. And I've talked to a Freddie DUS lender that has a DUS license to do multifamily where they don't have a big Fannie Mae shop in California and would like to utilize CalHFA to kind of help them originate deals.

We underwrite, submit it to them; but we're really renting their balance sheet via their DUS license with Fannie Mae. And again, we can modify our underwriting to that criteria because of the background that I came from.

So those are the options over the next 12 months as we finalize our other programs Steve mentioned earlier that we're going to look to try to implement.

MR. SPEARS: Any questions?

MR. GUNNING: Bob, are you nervous at all about the future of Fannie and Freddie?

MR. DEANER: Not from the multifamily program.

What I've heard from the folks that I know -- because I used to be on some of their committees, and so I still know quite a few folks there -- what we've heard is, if they wind them down, they'll split them into two groups. They'll have a multifamily house and then decide what they're going to do on the homeownership side.

And what I've heard is, they want to keep the multifamily house, because that portfolio is performing well, and it makes them quite a bit of income. So they don't really want to step away from that, it's just how do they carve themselves out of it, which I think would be a benefit for CalHFA because we could then partner with them, if they decide to carve that out. And maybe they could look at, "Well, your CalHFA in California, an HFA, you could help us out there to make that work." So I think that would be a benefit to CalHFA.

MR. GUNNING: You seem more enthused about this version than the other two.

MR. DEANER: Yes, well, it's also part of my background. I did it for 15 years, and so I know their language, and they're still AAA-rated. So they've got the backing of the federal government; and if you can stay AAA-rated, you're going to get the best pricing, so you're going to be able get deals done.

The lower your rating goes, as Steve had mentioned earlier, the pricing goes higher. It makes it tougher for deals to work on their cash flow.

So going the GSE route, some type of partnership there, would be very beneficial to us.

MS. CRESWELL: Can I ask on your preservation program -- I'm sorry.

CHAIR CAREY: Go ahead.

MS. CRESWELL: On your preservation program, is that for your stock?

MR. DEANER: Well, we would start with our stock, yes, because we have an aging portfolio that we do have some projects through our preservation program that we did in the past, that sellers would like to sell, and we have buyers that like to buy, and keep them 100 percent affordable.

And when we do our program, we get either extended affordability, deep affordability, or rehab. And we always get two of the three. It's usually extended and rehab.

And then we get a new borrower that, I think, is a little more enthusiastic to keep things going.

MS. CRESWELL: Do you know how much of sort of your portfolio includes either TCACs or HCDs? Because it's a big issue as we're looking in our portfolio about how we maintain that.

MR. DEANER: Yes, I'd have to, on that, defer to Margaret to say what portions we'd have.

I know probably our older stuff, I don't know, my guess would be half or more.

MS. ALVAREZ: No, I don't think half.

MR. DEANER: You don't think it's that much?

MS. ALVAREZ: You're talking older that would need rehab?

MS. CRESWELL: Well, and the current sponsors are trying to figure out how they both preserve the affordability and maintain the unit.

So I'm just wondering if there's a way to be, as you're thinking on developing that, to be thinking about the other state-assisted projects that need help.

MR. DEANER: That's a good question. And I have talked to part of the preservation -- I have talked to Kelly Boyer, the director of HUD of LA, and they have an aging portfolio. And they have over 400 loans in their portfolio that I'm currently talking to her about somehow preserving those loans. So that would also be part of it.

So it is a reach-out outside of our portfolio. But when I say "start with ours," it's because it takes the least amount of capital to start.

MS. CRESWELL: Right.

MR. DEANER: See how we do and then we can build it from there.

MS. CRESWELL: But I'm hoping you would reach out to your state partners.

MR. DEANER: Yes. Yes, we would.

MR. SPEARS: Absolutely.

MR. DEANER: Everybody's on the list.

MS. CRESWELL: Okay, just because I haven't got that phone call yet, so…

MR. SPEARS: Well, we didn't want to get ahead of the Board.

MR. DEANER: I can call you at ten after 1:00.

MS. CRESWELL: Great.

CHAIR CAREY: I'd like to think so.

MS. PETERS: I have a question on the risk share. What capital requirements would be on us there?

MR. DEANER: Well, there's two ways of looking at it. It depends on the volume of level I did.

So I'll give you an example. If I did $100 million worth of loans, typically, the rating agencies would want to see a 10 percent capital charge and that would be $10 million of equity. But part of that's going to be washed out, so if I'm doing portfolio loans that already have what we call a haircut on them, so there might already be capital there for those loans. And if I'm refreshing those loans and I'm probably adding a little bit of loan volume to them, the net-net might be that I only need six or seven million, because I'm going to have some capital that was already there, I'm making a new loan that's a little larger, and so you're going to refresh that. But you're going to reduce -- you may reduce some of that.

So it wouldn't be a full. If I'm doing outside of the portfolio, new loans, I need a fresh $10 million, it would be less than that. It might be, you know, five, six million. It depends on how much I add on to each loan for rehab, and then --

MR. SPEARS: And it also depends on the split. Historically, it's been 50-50.

MR. DEANER: Yes, historically it's been 50-50.

MR. SPEARS: And they go to as much as 90-10 -- 90 to them, 10 to us.

MR. DEANER: Yes, we are exploring talking to them about exploring a 90-10 split, where they take 90 and we take 10. So that's also an ask that I've been talking to them about.

MS. PETERS: Now, is that also something that, given all our new oversight focus and resolutions, that we would hear again before you undertook a capital charge? Or is that --

MR. SPEARS: If that's the Board's --

MS. PETERS: -- within the threshold of the day-to-day operation that wouldn't rise to the level of us needing to see it again?

MR. SPEARS: That's an interesting question because if we move forward, it's the same risk profile as we've done before, 50-50.

The question on that would be, maybe we don't have enough capital with that.

If we go to 90-10, that's less risk. That's not what the BSA was worried about. So I guess that's our ask today.

And what we'd like to do is move forward with all three of these, develop them, implement them as part of the business plan.

If it's the Board's wish, we'll bring back whatever aspects of this plan that you like and explore it further.

MS. PETERS: My own comments on that would be that given that, harkening back to the day when we were doing lending in substantial volumes and looking at a lot of these rehab loans, there was a lot of back and forth on the Board about just sort of policy and where we wanted to go with that. So I would like to have a conversation about it again. I don't know how the rest of the Board feels.

MS. CARROLL: I would second that.

And given that we've been so concerned about liquidity of the Agency, I'd just like to understand what we're giving up, so to speak.

MS. PETERS: Yes, and I'd also echo Cathy's comments about giving a preference to, you know, other state agencies that are also on the mission of trying to preserve existing loans.

MR. DEANER: Yes, I think our plan is to move forward under that we're going to try to utilize zero capital; but if we find, you know, to lend it to preserve deals and we need to use some, I would believe -- we would bring that back and say -- you know, I'd want Bruce to tell me what's a number that we could utilize that we feel is okay, and then to go from there. Because I then have to do projections based on that number, and say, "Okay, how many deals can I do based on that number?"

MR. SPEARS: And the driver is the rating-agency model for how much capital adequacy.

MS. PETERS: Right. And I certainly don't want to hamstring you where you have to come back for minimal capital charges. But, on the other hand, in light of the recent changes in our level of oversight, if it's a significant change, I'd like to have a conversation about that.

CHAIR CAREY: What's the time frame for developing this?

MR. DEANER: Well, I'd say for -- well, the risk share really is just a question of when we think we can do it, because we already have the agreement. It's in our hands. We have a 50-50 today.

It's a question internally: Do we want to move it to 90-10? And when do we feel comfortable where we are, even level, that we could provide a little bit of capital to do the risk share?

If the question for the next six to 12 months is not, then I'd put more emphasis on the GSE partnership, the Federal Home Loan Bank, and the conduit, and then wait to see where we flesh out in the next 12 to 18 months on the risk share.

Because there's really four programs I'm looking to move forward. Only one would take a portion of potential capital. And so if we internally felt -- when I say "internally," Claudia, Steve, Bruce and myself -- that it's not supported there, even if it's a little bit, then I'm moving forward with all four, we just put that one lower down on the list, until we feel more comfortable.

CHAIR CAREY: So is it safe to say that it would come back before a decision was made to commit a significant amount of capital to that lending program?

MR. DEANER: Oh, absolutely, yes.

MR. SPEARS: Absolutely.

In the meantime, we have the New Issue Bond Program to keep working on --

CHAIR CAREY: Sure.

MR. SPEARS: -- capital that we can use there, and also the MHSA program still rolls along, so…

CHAIR CAREY: I mean, the program is okay. I'm just hearing folks concerned about capital.

MR. DEANER: Oh, absolutely. If we made an internal decision that we had a little bit to utilize, I would fully bring the program and how it would work back to the Board, absolutely.

MR. SPEARS: And also just for the newer Board members -- you probably haven't seen these in a while -- but you are the loan committee for the larger of these loans.

So loan by loan, these would come back to you for your review -- the larger ones. And several of those would be large, even the ones that are on our portfolio.

Okay, good. Thank you.

So what I wanted Margaret to do, is to give you a quick update on the Performance-Based Contract Administration proposal that we turned in the response to the HUD RFP.

And, Margaret?

MS. ALVAREZ: Well, we won't know the final answer until July 1st or thereabouts, if we were selected or not. But we know that our bid package was accepted, we know that they said our legal opinion of whether we could do that job or not was approved; and we know that our references were called. So that's the only part we know, and the rest is just stay tuned for July, and keep your fingers crossed.

We're hoping for the best. We did a very good proposal. I'm very proud of my group and what we turned in.

MS. PETERS: What's our competition in that?

Do we know?

MS. ALVAREZ: No.

MR. SPEARS: What we've seen before, is that even other state HFAs applied, and so there may be another state HFA who is applying to do this work in California. But they're a private contractor.

MS. ALVAREZ: Yes, I would assume that the other HFAs, some of them applied, and probably any number of local housing authority types probably also applied.

MR. SPEARS: Obviously -- I'm sorry, go ahead.

MS. ALVAREZ: And there are two current PBCAs we know applied.

MR. SPEARS: Right. And just to refresh your memory, there's one contract administrator in the northern part of the state, and another in the southern part of the state.

Obviously, from a policy standpoint, we think the contract administrator ought to be a California entity. And also, there ought to be one statewide, so you have consistent administration throughout the state. But we're not assured that HUD will agree with that philosophy; but that's our story and we're sticking to it. And it's a good, solid front policy, we think.

CHAIR CAREY: Good.

MR. SPEARS: All right, so one last slide with regard to ongoing strategic initiatives.

I'll just focus on two.

The Homeownership Loan Origination system that's been in the works for a while, this is a huge project that will make an enormous difference in our ability to provide service to our lenders and borrowers who are applying, and be able to manage our pipeline better.

We're looking to launch that in the third calendar quarter of 2011. And that would be the fall, to December. So we're really working very hard on that. A lot of energy and staff time put into that.

And the other is, we really need to get the next phase of the Fiscal Services project. That is our management and financial and accounting information system. We've talked before, we're in kind of the dark ages there, and we need to get into the modern times to be more timely, better information.

It's difficult for staff to put together really important reports that we need at the executive level to try to manage the place. We're looking to do that.

And then, Claudia, I don't know if you want to talk about the last bullet there, about, you know, we are going to try to emphasize working with other partners within the state and the local as well.

MS. CAPPIO: Yes, just it makes a lot of sense to collaborate and coordinate as much as we can.

A good example came up a few minutes ago about portfolios and our ability to coordinate at least the tracking and data of them. So I look forward to doing that with my housing partners in the state.

MR. SPEARS: Thank you.

Well, with that, if there are other questions, we'd be happy to answer those.

There is a resolution. Just for clarification, the resolution, you adopt the business plan. The presentations, both that were in your binder plus what was presented today, plus the comments and the written testimony, will comprise the business plan for the day.

And with those presentations and the comments today, we'll put together a written work product that will be distributed in June to all of you that we've done in the last couple of years, and distribute that once we've taken up this resolution.

MS. PETERS: Tom, do you feel that the language in the resolution is broad enough to capture the fact that the Board would like to see the MCC, Genworth, and FHA risk-share back before it was implemented?

MR. HUGHES: Well, the intent was, as Steve said, is to capture the comments of the Board. We can certainly write it in there.

As a practical matter, what we do is we get the verbatim transcript and we try and figure out what the Board said. And that's not always simple because people say different things. And so even, you can see with the last one, we struggled for a long time to try and get a consensus because individual Board members stated their view.

And so what we try to do then is summarize those in later documents. We can put it in. We can do it any way you'd like.

CHAIR CAREY: Wouldn't it be reasonable to make that statement as part of the motion that adopts the resolution?

MS. PETERS: Yes, I was just asking him before we started with a motion. I didn't want to move to change something before we had a conversation about this.

CHAIR CAREY: So we wouldn't have to amend the resolution, but the motion itself could contain the language, if you want?

MR. HUGHES: We could certainly do that.

I think that's more or less what we did the last time, too.

MS. CARROLL: I have one other question on 3. And I understand why three is in there in terms of responding on a day-to-day basis to changes. But shouldn't be we subject that our resolution 11-06, which has the new restrictions that the Board is placing, so we shouldn't go beyond those in terms of giving latitude to the Agency, to the executive director?

MR. HUGHES: We could certainly do that, handle it however you'd like. That's perfectly fine, if you want to write that up.

CHAIR CAREY: We could simply add that to the end of the third bullet there.

MS. CARROLL: It's very simple. Yes.

CHAIR CAREY: Subject to the terms of Resolution 11-06.

MR. HUGHES: I think this just basically tracks the prior one.

MS. CARROLL: To the extent that -- I think that's a good point. And any other resolutions that have it.

MR. HUGHES: Just to be clear, is the suggestion that prior to the word "the" in the second line, we add the provision, "subject to the provisions of Resolution 11-06"?

MS. PETERS: Yes, "and any prior applicable resolutions."

We were just having a sidebar here, wondering if we had the financing resolutions that narrowed authority, we had prior resolutions about net increase in risk. Now we have 11-06, just to make sure that it can't be read that this adoption of the business plan resolution in any way expands authority beyond what's already been limited in prior resolutions.

MR. HUGHES: We can do that.

I think the financing resolution simply omitted broad language as opposed to putting a restriction is my recollection. But, yes, we can add that.

It becomes difficult at some point to figure out what you have the authority to do.

MS. PETERS: Right, that's what I'm wondering.

MR. HUGHES: And then it doesn't do any good to have a delegation of authority if you can't use it.

So the more specific, the better, I think. But

I think everyone understands what the general restrictions are.

MS. PETERS: Right. The prior restrictions are what they are. And I wouldn't want to, by this, give an implication that we're expanding beyond what we've already decided. And I don't know how to precisely state that.

MS. CARROLL: I believe 11-06, though, does expressly state that you'll come back with anything new in terms of financing.

CHAIR CAREY: 11-06 is pretty --

MS. CARROLL: It's pretty restrictive, so that might --

CHAIR CAREY: Are you comfortable with that?

MS. PETERS: Yes.

CHAIR CAREY: Just the specific reference to 11-06?

Would someone like to make a motion?

MS. PETERS: *(Raising hand.)*

CHAIR CAREY: I'm waiting.

MR. GUNNING: I'll move it.

MS. PETERS: Do you want to move the --

MR. GUNNING: No, I'll do as you want to add it.

MS. PETERS: Move adoption of resolution of

11-07, with the addition that staff agrees to come back to the Board prior to implementation of the MCC, Genworth, and FHA risk-share programs; and that the final paragraph, No. 3 in the resolution, add that it is subject to the restrictions of the previously passed Resolution 11-06.

MR. GUNNING: Second.

CHAIR CAREY: Any further discussion?

(No response)

CHAIR CAREY: Roll call, please.

MS. PETERS: Public comment.

CHAIR CAREY: I'm sorry, thank you.

I even wrote it on my agenda.

MR. GUNNING: You beat Tom to it.

CHAIR CAREY: This is an opportunity for the public to comment on this action.

If there's anyone that would like to speak specifically to this, please indicate.

(No response)

CHAIR CAREY: Seeing none, we'll have a roll call.

MS. OJIMA: Thank you.

Ms. Creswell?

MS. CRESWELL: Yes.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Yes.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Yes.

MS. OJIMA: Mr. Smith?

MR. SMITH: Yes.

MS. OJIMA: Ms. Peters?

MS. PETERS: Yes.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Yes.

MS. OJIMA: Resolution 11-07 has been approved with the additional language attached.

CHAIR CAREY: Thank you.

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Item 8. Discussion, recommendation, and possible action regarding the adoption of a resolution approving the Fiscal Year 2011/2012 CalHFA Operating Budget

CHAIR CAREY: We're now on to Item 8, which is the operating budget.

MR. SPEARS: Thank you, Mr. Chairman.

Obviously, this operating budget is linked to the business plan that you just approved. So we tried to summarize this. First of all, as we've done in the past, give you a little bit of an idea of how we think this year will wind up.

The approved budget for last year was $48.3 million. The projected actual expenditures are $44.5 million. That $44.5 million includes, however, this new requirement that we include future pension costs as a budgeted item. Obviously, that's not cash out of our pocket right this second. But the Governmental Accounting Board in its infinite wisdom has us put that in the budget these days.

So net of that extra cost is $41.9 million, $6.4 million under the budget that was adopted. Because that $48.3 million budget doesn't have any of that future pension cost stuff in there.

So I think this kind of sets it up to talk about, you know, why were we $6.4 million under. We spent $3.3 million less on strategic projects. Part of that, it was interrupted by the move, and we put some things off. And so it's just moving costs from one year to the next, frankly.

$1.7 million in lower outside contracts. A lot of that's legal costs.

In the past, we've gotten, in a little -- not hot water, but we've had legal costs come up in the middle of the year.

And so what Tom tries to do in his budget, is budget for the use of outside lawyers and consultants. And we had a lot less of that last year than we thought.

$1.4 million in lower personnel costs, as it translates into. We didn't fill as many vacancies and use as many permanent positions as we thought we would. We, instead, used temporary help. And we'll be reversing that trend this year.

$400,000 less in other operating costs, and various things.

And there was $400 million -- I'm sorry, $400,000 less in Keep Your Home California reimbursement. That's the federal program that uses, you know, staff and that sort of thing. We asked for reimbursement.

We thought we knew how that was going to work, and it turned out that we didn't use as much staff and internal costs, and so we had less reimbursement than we thought.

So that accounts for the $6 million being under budget.

Any questions about that before we go on to what we're proposing for the next year? Because it's a little different.

(No response)

MR. SPEARS: So we're proposing a $50 million budget. That includes -- I'm trying to remember -- $2.7 million for outside costs.

If you back that out, this budget is actually less than the one we proposed last year, you know, but for those costs. But it's made up of, as in the past, mostly personnel costs, $34 million, $12 million of general operating expenses.

We are planning to get reimbursed from Keep Your Home for $800,000, and we're going to spend about $4.7 million, mostly to finish up the homeownership project and get started on the Fiscal Services project. So that's the proposed budget.

The detail is in the back, it's on page 209 of your binders, if you want a little more detail and some comparison with prior budgets and prior costs.

I think the most important thing is that this is 5.6 more than we actually project spending for this current fiscal year. So I thought I'd go through and break that down.

It's $2 million more in personnel costs over what we actually spent this year. Most of that is filling vacancies, but it's also promotions, backfilling retirements.

The major problem there, that we're having now, is that a lot of the issues that we thought were temporary, that we could solve with temporary help, are more permanent in nature and ongoing, and don't have as finite into them as we'd like.

The other is that in the last four weeks, we've lost the temp employees from loan servicing, our critical area, to a new operation that Bank of America is opening in Rancho Cordova, a loan servicing center out there. So as the economy improves, we're losing the ability to just get temporary help that's qualified at-will. And we've had that luxury for the last…

So we're going to -- this $2 million cost includes the cost of filling 27 of 42 vacancies in the next fiscal year. And so that's the personnel cost.

$1.4 million in outside contracts. And here again, most of that is working with Tom to try and put in a contingency for outside legal costs, for things like the Lehman Brothers litigation or procedure.

The facilities costs, the lease costs for the new building is going to go up, and that's because the free-rent period that we negotiated with the lease will expire in August. And so it will go up over what we actually had last year.

A little bit more than we actually spent on strategic projects last year. $400,000 in I.T. costs. Most of that is for infrastructure upgrades, security, and that sort of thing. Privacy protection is for most of that.

And then finally, a $300,000 increase in other operating costs for various items, which we can comment on if you like. So that's it in a nutshell.

We have more slides with more detail.

Any questions before we get going?

MS. PETERS: No, not really a question. Just a comment, that I'm glad to see you converting those positions to permanent in the servicing area, because the recent consent decrees that were signed by the major servicers with the federal regulators are requiring them to have a single point of contact --

MR. SPEARS: Right.

MS. PETERS: -- and beef up their own internal servicing quite a bit beyond what they've been doing. So I think you're going to see a lot of bleed in there if you don't sweeten the pot for those employees.

MR. SPEARS: Right. And we don't -- it dovetails with another strategy that we've talked about before, and that is, we want to be servicing more of our own loans as we make more homeownership loans out into the future for mission reasons, for economic reasons.

And so what I would anticipate is that as we begin to work through our portfolio -- our problem children on the portfolio, if you will -- that, as we bring more loans on, then those folks would start to work on the new loans that we're bringing in-house. And it's still a strategy, it's a couple years away. But we're hoping that this will dovetail there nicely.

MR. IWATA: We've held exams currently right now for the homeownership associates and specialists. So a lot of people that were on the temporary right now is trying to get on perm. So they're on the list to be picked up, so they're getting ready.

MR. SPEARS: This slide just shows where the positions are going to be. And there, too -- and I'm not sure if you can see all this -- but the portfolio management is the tall tower here and then the -- where did loan servicing go?

Loan servicing is over there.

I mean, we had 25 people doing this three years ago. We now have a hundred, if you include a lot of the folks in Fiscal Services who are now processing, doing back office work on REO invoices, and loan modifications take a lot of accounting work to get done, because our systems are not built to change loans in the middle of the stream. So it's really a reallocation.

And I think the most important thing to remember about our operations is that we are now doing way more than we ever were doing before, because we're doing all the loan servicing and working with the loan modifications in the existing portfolio, and we've had expanded hours. Plus, we're also doing new lending at the same time.

So it requires more staff than you would think. And that's just the nature of our work.

Any questions?

CHAIR CAREY: Any questions? Comments?

MR. SPEARS: We have lots more slides in detail, if you'd like.

MR. HUNTER: I would just comment that, you know, assuming nothing drastic happens in June that's not projected in the projection, we've got two years where the staff has managed to come within 7 to 9 percent of the budget. And being under budget, I think that's an indication of pretty accurate budgeting and also pretty effective management of costs of the budget over time.

MR. SPEARS: Thank you, sir.

CHAIR CAREY: Do we have a resolution?

MR. HUNTER: Yes, we do.

I would move adoption of the resolution approving the budgets.

MS. CRESWELL: Second.

CHAIR CAREY: Moved and seconded.

MS. OJIMA: Who seconded?

CHAIR CAREY: Ms. Creswell.

This is an opportunity for public comment.

If there is anyone who would like to speak to the Board on this matter, please indicate.

(No response)

CHAIR CAREY: Seeing none --

MR. REYES: Do we have a hand way in the back?

AUDIENCE MEMBER: I’m sorry, I was just stretching.

CHAIR CAREY: Seeing none, roll call, please.

MS. OJIMA: Thank you.

Ms. Creswell?

MS. CRESWELL: Yes.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Yes.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Yes.

MS. OJIMA: Mr. Smith?

MR. SMITH: Yes.

MS. OJIMA: Ms. Peters?

MS. PETERS: Yes.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Yes.

MS. OJIMA: Resolution 11-08 has been approved.

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Item 9. Reports

CHAIR CAREY: Are there items in the reports that any Board members have questions or thoughts about or would like more information?

(No response)

CHAIR CAREY: No? Okay.

I'm going to juggle the agenda just slightly and move the public testimony to this point in the agenda.

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Item 11. Public testimony

CHAIR CAREY: This is an opportunity for anyone in the public to address the Board, recognizing that the Board cannot act on anything that is not agenda'd but is open to public comments at this point.

I do have a speaker's slip from one speaker. So I'd ask that Jeanne LeDuc come up and be the first.

MS. LeDUC: Good morning.

You had some pretty high-level discussions here, and I guess I'm here to ground it a little bit in the personal, in personnel.

My name is Jeanne LeDuc, and I'm here to inform the Board and the new executive director about some rather startling information I've recently discovered.

As you may know, I have been involved in a protracted appeal of a rejection during probation from your Agency.

After the first administrative law judge found this Agency's decision to be in both bad faith and lacking any substantial evidence, the Agency pursued an appeal through superior court. The SPB has reversed and denied a request for hearing.

I represent myself in this matter.

Since I separated from my spouse in late December of last year, I have received several e-mails indicating my spouse has been in contact with your agency's counsel, Barrett McInerney. Mr. McInerney is representing CalHFA in the appeal.

These e-mails are of a threatening tone.

I dismissed them at first because I could not imagine that even your hired gun, Mr. McInerney, would engage with an estranged spouse of an adversarial party -- myself obviously being the adversarial party.

To my disbelief, I discovered that Mr. McInerney and my spouse have been involved in a dialogue leading to the inclusion of divorce documents in a CalHFA court filing on April 5th. That document contains spurious allegations, included personal financial information, my separate property information, as well as handwritten allegations and prejudicial comments by my spouse on an exhibit -- two exhibits, in fact.

Mr. McInerney utterly failed to do any due diligence as to the allegations, and relied on someone with clearly improper motive. He also seemingly strategically omitted a page of my separate property declaration to grossly overstate my assets.

I am entering my third year of law school. In the Agency's filings, your hired gun stated that I should be reported to the State Bar.

Given the gravity of these specious charges, I discussed the matter with the dean and an ethics professor at UC Davis Law School. Both parties indicated that Mr. McInerney's conduct fell below the standard of due diligence and presented a serious ethical and moral question in his approach to impugn my character.

Judge Kenny in Sacramento Superior Court agreed to redact the handwritten comments and allegations from the CalHFA filing. He did this presumably because he agreed with me that they have no place in this litigation.

In light of these facts, it would seem that

Mr. McInerney's conduct, including some prior incidents that I will address at a future date, should, in fact, be subject to a bar investigation.

In the early part of April, I sent a letter to Acting Director Spears and General Counsel Hughes regarding Mr. McInerney's conduct. Subsequent to that letter, I discovered that Mr. McInerney was not acting alone. In fact, your Human Resource attorney, Victor James, was included on e-mail correspondence between my spouse and Mr. McInerney. Thus, it would appear your agency has condoned this behavior.

Moreover, Mr. James had personal knowledge based on these communications that your agency's filings contained misrepresentations regarding my assets, my separate-property assets.

I understood the mission of this organization is facilitating affordable housing to our state's residents. In fact, that's why I accepted a job here over six years ago.

I cannot fathom why this case has raised the ire of Mr. McInerney, and seemingly your agency, to the extent that you are willing to cross ethical boundaries in an effort to damage my reputation.

As I continue to pursue my appeals, I ask this board and your director to make some inquiries in light of this information, and consider the actions by Mr. McInerney and Mr. James.

I would suggest that there be an effort to rein in Agency staff and their counsel's scorched-earth approach in this appeal litigation.

The rejection was without merit and unjust. But the Agency's subsequent actions in crossing the lines of litigation are no less than morally repugnant.

Thank you.

And I'm happy to answer any questions or provide any information.

CHAIR CAREY: I'm sure you can appreciate the fact that based on that this is legal, professional, and personnel, I don't think the Board can engage in any conversation with you at this point.

MS. LeDUC: That's fine. I hope that someone raises this at the appropriate time, and consider the information I've presented to you.

Thank you.

CHAIR CAREY: Thank you very much.

Are there others who wish to address the Board at this time?

(No response)

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Item 10. Discussion of other Board matters

CHAIR CAREY: Seeing none, we now have moved to the discussion of other Board matters.

And we'd like to take the opportunity to go out of our way to thank Steve Spears.

Steve, you've got to pay attention to this part.

Steve, come on up here, why don't you?

We have had the benefit and opportunity to work very closely with Steve in the past two and a half years, since December of 2008, when he was kind of thrust into the role of acting executive director, and then ultimately executive director.

I think that we all feel very strongly that you have done an above-and-beyond job of leading the Agency through an incredibly difficult time.

I won't even mention some of the many things, such as the office relocation, the West Sacramento move, ramping up MHSA, single-family program loan servicing, Keep Your Home California -- I wasn't going to mention those names, but…

MS. PETERS: Bay Area Housing --

CHAIR CAREY: The Bay Area Housing Plan, the remarkable job of managing the Agency's debt portfolio, working with Standard & Poor's, Moody's, Wall Street, HUD, NCSHA, the State of California --

MS. CAPPIO: The Treasury.

CHAIR CAREY: -- the Treasury, and the Treasurer's office and HCD and TCAC and other state agencies, all at the same time making some tough decisions, such as the gap decision, which was tough, significantly enhancing the transparency of the Agency and the role of the Board. Even as the Board has continued to turn over somewhat, the relationship with the Board is excellent.

We sort of developed the "Survive, revive, thrive" mantra. And not only has the Agency survived, but I'm happy to see that you have also. And we might have had some doubts.

And, Steve, from a personal point of view, I think that what I know, is that you're never one to take credit alone. It's always the team. It's always the team that we hear about from Steve. And that is the truth, because it is a remarkable team. And it takes a good leader to recognize that, and I think that's important.

I think that the Agency; the Board; the State, capital S; the state, small S; and those who have benefited from CalHFA as residents, as tenants, as homeowners, owe you a great deal of thanks for the past two and a half years, in addition to your service as chief deputy before that.

But the needs are still there; and I think that as the Agency survives, revives, thrives, that it's also the future residents and the future homeowners that also owe you a vote of thanks.

And so, thank you.

And I think we have --

MS. CAPPIO: We do. We have a little presentation.

CHAIR CAREY: -- a presentation for you.

So why don't you come up here?

MS. CAPPIO: So this is a certificate of appreciation for Steve, in honor and recognition of his invaluable leadership, dedication, and commitment to CalHFA during the perfect financial storm of 2008 through 2011.

(Applause)

MS. CAPPIO: Oh, and here is a little something, too.

MR. GUNNING: A pink envelope.

MR. SPEARS: It's not money.

I think you guys know how I feel about this board and the Agency, and especially employees and the senior executive team that work so hard through all this.

And thank you very much for the kind words; but it's not something you do by yourself. And we have business partners that saw our way through all this. And I think I have all those folks to thank.

And I have Heather to thank for the "Survive, revive, and thrive" mantra.

So thank you. Thank you very much.

(Applause)

CHAIR CAREY: Any other Board members want to say anthing?

(Applause)

CHAIR CAREY: Steve, it's been quite a run. And we have quite a future to look forward to.

MR. SPEARS: Yes.

MS. PETERS: I'm happy that you're a part of our future.

CHAIR CAREY: Yes.

MS. CAPPIO: Yes, excellently happy.

CHAIR CAREY: And glad to have Claudia with us.

So with that, I think I can safely adjourn the meeting.

(Gavel sounded)

(The meeting was adjourned at 12:57 p.m.)

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REPORTER'S CERTIFICATE

I hereby certify that the foregoing proceedings were duly reported by me at the time and place herein specified;

That the testimony of said witnesses was reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for either or any of the parties to said deposition, nor in any way interested in the outcome of the cause named in said caption.

IN WITNESS WHEREOF, I have hereunto set my hand on the 6th day of June 2011.

____

DANIEL P. FELDHAUS
California CSR #6949
Registered Diplomate Reporter
Certified Realtime Reporter

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State of California

M E M O R A N D U M

To: Board of Directors
CALIFORNIA HOUSING FINANCE AGENCY

Date: July 12, 2011

From: L. Steven Spears, Chief Deputy Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Agenda Item 4 – Resolution 11-09 – Amendment to Homeownership Business Plan

Background: At the May 2011 meeting, the Board discussed a number of business proposals presented by staff and adopted an updated Two Year Business Plan for Fiscal Years 2011/12 and 2012/13. The Board requested additional information on three proposals: 1) a Multifamily Division proposal to further develop a risk-share program with FHA; 2) a Homeownership Division proposal to offer a conventional loan product insured by Genworth Mortgage Insurance with a 97% loan to value; and 3) a Homeownership Division proposal for a Mortgage Credit Certificate (MCC) program. The Multifamily Division has not completed its discussions with various parties on the risk share proposal and is not yet ready to bring that item back to the Board. The Homeownership Division, however, is ready to provide more information on the MCC program and the 97% conventional loan program.

97% Conventional Loan Program (Cal97 Program): At the May meeting, staff presented a proposal for a conventional loan product that would be offered to borrowers in addition to the current FHA program. The Board expressed a desire to discuss this product further at the July meeting.

To recap the terms of this program: The borrower pays a fixed interest rate for 30 years on a fully amortizing loan. Genworth Mortgage Insurance, the Agency's mortgage insurance partner, will insure up to 35% of the loan balance and will provide job loss protection to the borrower. For Cal97, two months of payment reserves are required.

Cal97 allows first-time homebuyers to borrow up to 97% of the purchase price of a home, but requires the borrower to use at least 3% of their own funds in the purchase. By contrast, FHA allows borrowers to use government downpayment assistance to borrow the difference between the FHA maximum 96.5% LTV and the total price of the home. Both Cal97 and FHA programs allow the borrower to use government assistance programs to finance other closing costs.

Cal97 will also require a higher credit score than the FHA program. The Agency currently requires a FICO score of at least 640 on all FHA loans. Genworth has requested a FICO score of at least 720. We are in discussions with Genworth to allow a lower credit score, but a score that is higher than FHA will be required by Genworth.

The source of financing for Cal97 will be provided through the Agency's continued to use proceeds from NIBP and market bonds required under NIBP. In addition, the loans will be securitized through the use of a master servicer. As a result, the Agency will own mortgage backed securities that have a guaranteed income stream from Fannie Mae. With securitized collateral, the bonds used to finance the Cal97 program are expected to be rated Aaa/AAA

Once the NIBP ends at December 31, 2011, the Agency will be able to use the secondary market (i.e., the "TBA" market) to provide financing for the program. The use of the secondary market does not require the issuance of CalHFA bonds. And, once the loans are sold in the secondary market, the Agency will no longer own the loans.

MCC Program: The mortgage credit certificate program is a new type of program for the Agency and will require additional development time and significant changes to the Agency's computerized loan reservation system before it can be offered to first time homebuyers. This program likely would not be available to borrower until January 2012.

Nevertheless, Board members were interested in the impact an Agency program would have on MCC programs offered by local governments. Staff conducted a survey of all Affordable Housing Partnership Program (AHPP) partners – the Agency's local government partners. Staff received 60 responses to the survey. A majority of the respondents do not offer an MCC program. Of those that do offer an MCC program, only 25% felt it could have a negative impact on their program. Of all respondents, 95% were in favor of linking MCC with our CalHFA first mortgage program. And 95% of all respondents were in favor of waiving the $500 processing fee if MCC is used with a CalHFA first mortgage program.

Your approval of Resolution 11-09 is requested. Resolution 11-09 amends the Business Plan approved by the Board at the May meeting and allows the staff to continue to develop the Cal97 and MCC programs and offer those programs to borrowers during the 2011/12 and 2012/13 fiscal years.

RESOLUTION 11-09

HOMEOWNERSHIP BUSINESS PLAN

FISCAL YEARS 2011/2012 AND 2012/13

WHEREAS, pursuant to the Zenovich-Moscone-Chacon Housing and Home Finance Act ("Act"), the California Housing Finance Agency ("Agency") has the authority to engage in activities to reduce the cost of mortgage financing for home purchase and rental housing development, including the issuance of bonds and the insuring of mortgage loans;

WHEREAS, the Agency's statutory objectives include, among others, increasing the range of housing choices for California residents, meeting the housing needs of persons and families of low or moderate income, maximizing the impact of financing activities on employment and local economic activity, and implementing the objectives of the California Statewide Housing Plan;

WHEREAS, the Agency desires to amend Resolution 11-07 adopted May 19, 2011, which committed the Agency to a Business Plan for fiscal years 2011/12 and 2012/13;

WHEREAS, the current global credit crisis and the continuing uncertainty in the California economy and real estate markets continue to present financial challenges for the Agency;

WHEREAS, the Agency must minimize additional real estate related risk and preserve liquidity for operating expenses and financial obligations;

WHEREAS, the Agency has presented to the Board of Directors additional information regarding two proposed Homeownership Division loan programs, to be included in the updated Two-Year Business Plan covering fiscal years 2011/12 and 2012/13, with case based scenarios to adjust to the ever changing economic, fiscal and legal environment, which updated Business Plan is designed to assist the Agency to meet its financial obligations, its statutory objectives, support the housing needs of the people of California and to provide the Agency with the necessary road map to reemerge from this crisis as a leading affordable housing lender providing bond financing and mortgage financing well into the future;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Agency as follows:

1. The updated Homeownership 2011/12 and 2012/13 Business Plan, as presented by the written presentation attached hereto and made a part hereof, and any additional presentations made at the meeting, is hereby fully endorsed and adopted.

2. In implementing the updated Business Plan, the Agency shall strive to satisfy all the capital adequacy, liquidity reserve, credit and other reserve and any other requirements necessary to maintain the Agency’s general obligation credit ratings and the current credit ratings on its debt obligations, to comply with the requirements of the Agency’s providers of credit enhancement, liquidity, and interest rate swaps and to satisfy any other requirements of the Agency’s bond and insurance programs.

3. Because the updated Business Plan is necessarily based various economic, fiscal and legal assumptions, for the Agency to respond to changing circumstances, the Executive Director shall have the authority to adjust the Agency’s day-to-day activities to reflect actual economic, fiscal and legal circumstances to attain goals and objectives consistent with the intent of the updated Business Plan and consistent with Resolution 11-06.

I hereby certify that this is a true and correct copy of Resolution 11-09 adopted at a duly constituted meeting of the Board of the Agency held on July 21, 2011, in Sacramento, California.

ATTEST: ______________________
Secretary

Attachment

State of California

M E M O R A N D U M

To Board of Directors **Date:** July 12, 2011
CALIFORNIA HOUSING FINANCE AGENCY

From: L. Steven Spears, Chief Deputy Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: ITEM 5 – Compensation of certain exempt management employees

Background: In January 2007, the CalHFA Board, in accordance with Health and Safety Code section 50909, adopted the results of a salary survey conducted by the outside firm of Watson Wyatt for certain exempt management positions. (See Board Resolution 07-06.) At the same meeting, the Board adopted the recommendations of the Board's Compensation Committee which established a salary range for each of the exempt management positions and established salaries for each position as a "New Salary Realignment." (See Board Resolution 07-07). At a subsequent meeting, the Board reduced the upper limit of the salary range for each exempt management position and also reduced the salary of the Executive Director. (See Board Resolutions 07-10 and 07-11).

Discussion: Two of these key positions are open at the present time - the Director of the Homeownership Division and the Chief Information Officer. These positions are in the process of being filled through the gubernatorial appointments process and the Executive Director currently is working with the Governor's Appointment Office. To process these appointments, it is necessary for the Board to reaffirm the establishment of the salaries for each of the two positions.

Recommendation: That the Board adopt Resolution 11-10 reaffirming the salaries of the Director of Homeownership at $180,000 and the Chief Information Officer at $125,000.

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RESOLUTION 11-10

RESOLUTION SETTING SALARIES FOR CERTAIN EXEMPT EMPLOYEES

WHEREAS, on January 1, 2007, amendments to Health & Safety Code section 50909 became effective, directing the Board of Directors of the California Housing Finance Agency (the "Board of Directors") to establish salaries for key exempt managers; and

WHEREAS, on January 18, 2007, the Board adopted Resolution 07-06, establishing salary ranges for certain exempt positions as an aid in setting specific salaries; and

WHEREAS, The Board of Directors thereafter adopted Resolution 07-07, establishing specific salaries for certain exempt managers; and

WHEREAS, on March 8, 2007, the Board adopted Resolution 07-10, amending the salary ranges previously adopted in Resolution 07-06, and establishing salary caps for such positions, and

WHEREAS, the Agency has been in the process of recruiting to fill the vacant positions of the Director of Homeownership Programs and Chief Information Officer; and

WHEREAS, candidates for the positions of Director of Homeownership Programs and Chief Information Officer have been submitted to the governor for appointment,

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. The Board of Directors sets the salaries for the positions of the Director of Homeownership Programs and Chief Information Officer, upon their appointment by the Governor, to be as described below.

2. The salary for the Director of Homeownership Programs shall be $180,000.

3. The salary for the Chief Information Officer shall be $125,000.

I hereby certify that this is a true and correct copy of Resolution 11-10 adopted at a duly constituted meeting of the Board of Directors of the Agency held on July 21, 2011, at Burbank, California.

ATTEST: ________________________

Secretary

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RESOLUTION 07-06

RESOLUTION APPROVING 2007 EXEMPT SALARY RANGES

WHEREAS, on January 1, 2007, amendments to Health & Safety Code Section 50909 became effective, directing the Board of Directors of the California Housing Finance Agency (the "Board of Directors") to establish salaries for key exempt managers; and

WHEREAS, the Board of Directors has previously established a Compensation Committee to make recommendations to the full Board of Directors as to salaries for key exempt management pursuant to Health & Safety Code section 50909; and

WHEREAS, an independent consultant has prepared a salary survey, and the methodology of such survey has been reviewed by the Department of Personnel Administration, all as required by section 50909; and

WHEREAS, the Board of Directors has reviewed the independent salary survey conducted pursuant to section 50909; and

WHEREAS, the Board of Directors has reviewed recommendations of the Compensation Committee to establish 2007 salary ranges for such key exempt managers, which is attached hereto as Exhibit "A"

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. The Board of Directors adopts the recommendations of the Compensation Committee as to salary ranges for key exempt management.

2. Effective as of January 1, 2007, the salary ranges for the key exempt management positions for 2007 shall be as listed in the attached Exhibit "A".

3. The salary ranges established pursuant to this resolution shall be subject to review and possible amendment after calendar year 2007.

I hereby certify that this is a true and correct copy of Resolution 07-06 adopted at a duly constituted meeting of the Board of Directors of the Agency held on January 18, 2007, at Millbrae, California.

ATTEST: ______________________
Secretary

CalHFA's Preliminary Salary Structure
Established by Compensation Committee on 1/9/2007

Grade	Position(s)	Salary Range			Midpoint Increase	Min-to-Max Spread	Notes
		Minimum	Midpoint	Maximum			
1	Executive Director	$150,000	$200,000	$250,000	*11.1%*	*67%*	Midpoint generally based on WW custom survey median salary, plus supplemental data from selected agencies. Max syncs with WW custom TCC 75th percentile.
2	Chief Deputy Director Dir. of Financing Dir. of Multifamily Programs Dir. of Homeownership	$140,000	$180,000	$220,000	*12.5%*	*57%*	Midpoint generally based on WW custom survey median salary, plus supplemental data from selected agencies. (Committee not compelled to maintain 67% spread, which would create a range of $135K to $225K)
3	General Counsel Dir. of Mortgage Insurance	$130,000	$160,000	$190,000	*28.0%*	*46%*	Midpoint generally based on WW custom survey median salary, plus supplemental data from selected agencies. (Committee not compelled to maintain 67% spread, which would create a range of $120K to $200K)
4	Chief Information Officer Risk Manager	$100,000	$125,000	$150,000	*25.0%*	*50%*	Midpoint generally based on WW custom survey median salary, plus supplemental data from selected agencies. (Committee not compelled to maintain 67% spread, which would create a range of $94K to $156K)
5	Dir. of Legislation	$75,000	$100,000	$125,000	*N/A*	*67%*	Midpoint generally based on WW custom survey median salary, plus supplemental data from selected agencies.

Grade: encompasses positions of similar level

Salary Range: incumbent's salary may fall anywhere within the range, depending on such factors as experience, time in position and current salary in relation to the range

Midpoint: point around which a fully experienced, "good" performer might be paid. Often aligned with market reference point (e.g., market 50th percentile salary)

Midpoint Increase: percentage increase from one grade midpoint to the next grade midpoint

Min-to-Max Spread: percentage increase from minimum to maximum of a salary range. The spread often increases for higher grade levels

Watson Wyatt Worldwide

RESOLUTION 07-07

RESOLUTION APPROVING ESTABLISHMENT OF EXEMPT MANAGER SALARIES IN REVISED 2006-2007 OPERATING BUDGET

WHEREAS, the Board of Directors of the California Housing Finance Agency (the "Board") has previously approved the 2006-2007 operating budget of the California Housing Finance Agency ("Agency"); and

WHEREAS, on January 1, 2007, amendments to Health & Safety Code section 50909 became effective, directing the Board of Directors to establish salaries for key exempt managers in the Agency's budget, and

WHEREAS, the Board of Directors has previously established a Compensation Committee to make recommendations to the full Board of Directors as to salaries for key exempt management pursuant to Health & Safety Code section 50909; and

WHEREAS, an independent consultant has prepared a salary survey, and the methodology of such survey has been reviewed by the Department of Personnel Administration, all as required by section 50909; and

WHEREAS, The Board of Directors has reviewed the independent salary survey conducted pursuant to section 50909; and

WHEREAS, the Board of Directors has reviewed the recommendations of the Compensation Committee of the Board of Directors as to key exempt management salaries, as attached hereto as "Exhibit "A", and

WHEREAS, the Board of Directors has enacted Resolution 07-06, establishing 2007 salary ranges for such key exempt management positions,

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. The Board of Directors adopts the recommendations of the Compensation Committee, as listed on the attached Exhibit "A"; and

2. Effective as of January 1, 2007, the 2006-2007 operating budget of the California Housing Finance Agency is hereby amended to establish the salaries of key exempt managers, as listed in the column "New Salary Realignment" in the attached Exhibit "A".

I hereby certify that this is a true and correct copy of Resolution 07-07 adopted at a duly constituted meeting of the Board of Directors of the Agency held on January 18, 2007, at Millbrae, California.

ATTEST: ______________________
Secretary

CalHFA Compensation Committee Recommendations
1/18/2007

Position	Current Salary	Proposed Salary Range			New Salary Realignment	Percent Increase Over Current Salary	Salary Realignment as % of Midpoint
		Minimum	Midpoint	Maximum			
Executive Director	$ 138,338	$ 150,000	$ 200,000	$ 250,000	$ 200,000	44.6%	100.0%
Chief Deputy Director	$ 148,500	$ 140,000	$ 180,000	$ 220,000	$ 175,000	17.8%	97.2%
Dir. Of Financing	$ 122,424	$ 140,000	$ 180,000	$ 220,000	$ 170,000	38.9%	94.4%
Dir. Of Multifamily	$ 122,424	$ 140,000	$ 180,000	$ 220,000	$ 180,000	47.0%	100.0%
Dir. Homeownership	$ 122,424	$ 140,000	$ 180,000	$ 220,000	$ 180,000	47.0%	100.0%
General Counsel	$ 130,664	$ 130,000	$ 160,000	$ 190,000	$ 170,000	30.1%	106.3%
Dir. Of Mortgage Insurance	$ 145,000	$ 130,000	$ 160,000	$ 190,000	$ 160,000	10.3%	100.0%
Chief Information Officer	$ 110,277	$ 100,000	$ 125,000	$ 150,000	$ 125,000	13.4%	100.0%
Risk Manager	$ 115,680	$ 100,000	$ 125,000	$ 150,000	$ 137,500	18.9%	110.0%
Dir of Legislation	$ 85,404	$ 75,000	$ 100,000	$ 125,000	$ 95,500	11.8%	95.5%

RESOLUTION 07-10

RESOLUTION AMENDING PRIOR SALARY RANGE RESOLUTION

WHEREAS, on January 1, 2007, amendments to Health & Safety Code section 50909 became effective, directing the Board of Directors of the California Housing Finance Agency (the "Board of Directors") to establish salaries for key exempt managers; and

WHEREAS, the Board of Directors has previously established a Compensation Committee to make recommendations to the full Board of Directors as to salaries for key exempt management pursuant to Health & Safety Code section 50909; and

WHEREAS, on January 18, 2007, the Board adopted Resolution 07-06, establishing salary ranges for certain exempt positions as an aid in setting specific salaries; and

WHEREAS, The Board of Directors thereafter adopted Resolution 07-07, establishing specific salaries for certain exempt managers; and

WHEREAS, the Board of Directors is considering the adoption of policies and procedures regarding compensation of exempt managers, and

WHEREAS, the Board of Directors has determined that the salary ranges set in Resolution 07-06 should be modified,

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. The Board of Directors amends Resolution 07-06. The ranges set forth in the attachment to Resolution 07-06 are hereby repealed and replaced by the following salary caps:

Grade	Positions	Salary Cap
1	Executive Director	$210,000
2	Chief Deputy Director, Director of Financing, Director of Multi-family programs, Director of Homeownership	$190,000
3	General Counsel, Director of Mortgage Insurance	$170,000
4	Chief Information Officer, Risk Manager	$137,500
5	Director of Legislation	$105,000

I hereby certify that this is a true and correct copy of Resolution 07-10 adopted at a duly constituted meeting of the Board of Directors of the Agency held on March 8, 2007, at Sacramento, California.

ATTEST: ______________________
Secretary

RESOLUTION 07-11

RESOLUTION AMENDING PRIOR SALARY RESOLUTION

WHEREAS, on January 1, 2007, amendments to Health & Safety Code section 50909 became effective, directing the Board of Directors of the California Housing Finance Agency (the "Board of Directors") to establish salaries for key exempt managers; and

WHEREAS, the Board of Directors has previously established a Compensation Committee to make recommendations to the full Board of Directors as to salaries for key exempt management pursuant to Health & Safety Code section 50909; and

WHEREAS, On January 18, 2007, the Board of Directors adopted Resolution 07-07, establishing specific salaries for certain exempt managers, including the Executive Director; and

WHEREAS, the Executive Director has requested that her salary be reset to the 25th percentile of the Watson Wyatt Executive Director Custom Survey Data, in the amount of $175,000, and

WHEREAS, the Board of Directors has determined that the salary of the Executive Director should be reset as requested,

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. The Board of Directors amends Resolution 07-07 to modify the salary of the Executive Director to the sum of $175,000, effective as of January 1, 2007.

I hereby certify that this is a true and correct copy of Resolution 07-11 adopted at a duly constituted meeting of the Board of Directors of the Agency held on March 8, 2007, at Sacramento, California.

ATTEST: ______________________

Secretary

State of California

M E M O R A N D U M

To: Board of Directors
CALIFORNIA HOUSING FINANCE AGENCY

Date: July 11, 2011

From: KEN GIEBEL, Director of Marketing
CALIFORNIA HOUSING FINANCE AGENCY

Subject: AGENDA ITEM 6 – CalHFA Employee Recognition Program

Background:

The California Housing Finance Agency has not had a formal employee recognition program during its history. However at varying times over the years, the value of a formal employee recognition program has been considered. Several ideas have been used. Just two examples of these attempts include awarding desk top paperweights memorializing individuals' team member contribution to the successful completion of a large IT initiative, and personal Thank You cards for individuals to distribute to helpful coworkers. Both were successful in contributing to an employee's satisfaction. But without repeated and consistent use the benefits were limited and temporary.

Now more than ever, CalHFA has an opportunity to offer acknowledgment of superior performance by recognizing employees for their contributions' to quality and productivity, and will promote a continuous cycle of employee engagement and productivity.

Studies[1] show that when employees are "engaged" with the organization's mission, values and vision, they are more likely to produce four tangible behaviors:
- Staying
- Performing
- Influencing others to perform well
- Recommending the employer to others

Goal:

The goal of the Employee Recognition Program is to provide CalHFA employees with a flexible yet meaningful method of acknowledging their colleagues and staff for superior performance and outstanding contribution to the Agency's quality and productivity; the end result being a continuous cycle of employee engagement and superior performance.

[1] Edelman Internal Communications Study, May 2006, Northeastern University, Boston MA

Program:

The proposed Employee Recognition Program has the following three Tiers.

Tier I: Peer to Peer:

Provide staff a way of saying "Thank You" to their colleagues promoting positive feedback from employee to employee in a simple and direct manner.

Tier II: Manager to Employee/Team:

Formal written recognition presented to employees or teams from Supervisor/Manager. In addition to written recognition for their personal file, a small gift card will accompany the recognition letter.

Tier III: Annual Achievement Awards:

The highest level of recognition will be presented by the Executive Director at the Annual State of the Agency. Division Directors will present their nomination to the Awards Committee who will review the documentation and select the winning individual(s) or team(s). In addition to an awards certificate, the individual(s) or team(s) recipient will receive up to $500.00

All Tiers have criteria standards and procedural guidelines, however the program will provide the flexibility to enable Directors to tailor the program to meet their needs. All exempt employees are excluded from receiving any monetary awards.

Budget:

Tier II	$1,500
Tier III	1,500
Total	$3,000

Decisions:

We plan on introducing the Employee Recognition to staff at the State of the Agency in mid-August and we will need your approval to add the above budget line item to the 2011/2012 Administrative budget.

Please let me know if you have any questions.

RESOLUTION 11-11

CALHFA EMPLOYEE RECOGNITION PROGRAM

WHEREAS, the California Housing Finance Agency (the “Agency”) desires to implement an Employee Recognition Program to provide the Agency with a flexible and meaningful method of acknowledging their staff for superior performance and outstanding contribution to the Agency’s quality and productivity; and

WHEREAS, the Board of Directors has considered a written Employee Recognition Plan submitted to the Board; and

WHEREAS, the Board believes that such a plan would benefit the Agency;

NOW, THEREFORE BE IT RESOLVED by the Board of Directors of the Agency as follows:

1. The Board adopts the “CalHFA Employee Recognition Program” presented to the Board and attached hereto as Exhibit “A”, together with any modifications made by the Board at the meeting and reflected in the minutes of the meeting.

I hereby certify that this is a true and correct copy of Resolution 11-11, adopted at a duly constituted meeting of the Board of the Agency held on July 21, 2011, in Burbank, California.

ATTEST: ______________________
Secretary

Attachment

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State of California

M E M O R A N D U M

To Board of Directors
CALIFORNIA HOUSING FINANCE AGENCY

Date: July 12, 2011

From: L. Steven Spears, Chief Deputy Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: ITEM 7 – Update on the Status of U.S. Treasury's New Issue Bond Program and Temporary Credit and Liquidity Program

In October 2009 the Obama Administration announced an initiative for state and local housing finance agencies (HFAs) comprised of a new bond purchase program to support new lending by HFAs and a temporary credit and liquidity program (TCLP) to improve access of HFAs to liquidity for outstanding variable rate bonds. Many state and local HFAs around the country participated in these financial assistance programs. CalHFA received $5 billion in assistance consisting of a TCLP allocation of more than $3.5 billion and a New Issue Bond Program (NIBP) allocation of approximately $1.4 billion.

Status of the Programs

In early 2010, staff reported to the Board that the Agency had issued more than $1 billion of single family bonds and $380 million of multifamily bonds as part of the HFA Initiative sponsored by the U.S Treasury Department, Fannie Mae and Freddie Mac. All NIBP bond proceeds were initially held in escrow until a participating HFA requested the release of proceeds to finance loans. As of June 30, 2011, the Agency has released nearly $193 million of its multifamily proceeds to finance twenty affordable rental housing loans and $96 million of single family proceeds to finance the purchase of loans made to first-time homebuyers. All of the remaining multifamily NIBP bond proceeds are expected to be utilized by the December 31, 2011 expiration date. Current projections are that only another $50 to $100 million of single family proceeds will be released by year end and that approximately $800 million of the single family NIBP allocation will go unused without another extension of the program expiration date or program modification.

In January 2010 staff also reported to the Board that the Agency had closed a series of transactions that would provide for the substitution of standby bond purchase agreements enhancing all outstanding Variable Rate Demand Obligations (VRDOs) with credit and liquidity facilities made available through TCLP. By the end of January 2010, all $3.5 billion of CalHFA VRDOs were supported by TCLP. With liquidity and credit support from the federal government, the performance of CalHFA VRDOs has been impressive.

Over the past sixteen months, the weekly interest rate resets have averaged 0.24% or 24 basis points (an average of 2 basis points less than SIFMA) and the basis mismatch between the variable rate payments made to bondholders and the variable rate received from swap counterparties for VRDOs hedged with an interest rate swap has improved dramatically. In calendar year 2009, basis mismatch on hedged VRDOs amounted to more than $30 million of additional interest expense to CalHFA and in the sixteen months of TCLP enhancement, anticipated interest expense has been reduced by approximately $2.5 million. Total savings under the TCLP has amounted to almost $35 million.

In addition, remarketing agents' have reported interest rate resets this week as low as 4 basis points (0.04%). These are the lowest interest rates ever paid on a bond in CalHFA history.

Proposals for Amendment and Modification of the HFA Initiative Programs

NIBP - Most HFAs that have exhausted their NIBP allocation from U.S. Treasury are reporting limited amounts of lending this year. Federal government support for the mortgage market has driven mortgage spreads to U.S. Treasuries to record lows and made the benefit of tax exemption in HFA mortgage revenue bond programs inconsequential. For single family programs, only HFAs that can subsidize their loan rate or offer subordinate loans for closing cost or down payment assistance have generated much loan volume. Most HFA multifamily lending programs are generally limited to conduit issuance activity.

In an attempt to improve their lending capabilities state and local HFAs have proposed several ideas to amend the existing NIBP program beyond 2011 or modify the program in an attempt to fully utilize the original allocations. There has also been a flurry of activity to propose possible approaches to provide a second round of NIBP among the housing finance agency circles including the National Council of State Housing Agencies and the National Association of Local Housing Finance Agencies. While nothing has been announced by U.S. Treasury as of this writing, CalHFA is and will be very supportive of these ideas and proposals.

Among the proposals being discussed is a modification to allow unused single family NIBP allocation to be used for multifamily lending purposes. Considering that we will not use all of our remaining single family allocation by year's end this would be a significant boost to the financing of affordable rental housing in California. The biggest impediment will be the timing of an announcement and the relatively short time frame to release NIBP dollars from escrow before the end of this year.

TCLP – At the end of calendar year 2010; 11 of the 13 HFAs participating in TCLP remained in the program and $7.4 billion of the original $8.2 billion allocation was still outstanding. As of August 1, 2011 CalHFA's utilization of TCLP will have been reduced by more than $700 million to approximately $2.8 billion. TCLP has been extremely beneficial for HFAs, like CalHFA, that issued VRDOs and had few options in 2009 to replace private sector credit and liquidity facilities as a result of the financial crisis and market downturn. Unfortunately, CalHFA is still unable to access alternative credit and liquidity support to replace TCLP and the program is scheduled to expire in December 2012.

Extension Request for TCLP -- Early this year Agency management requested the GSEs and U.S. Treasury to consider an extension and modification of TCLP for up to five additional years. Agency financial staff was instrumental in providing analysis for Treasury and their financial advisor as the terms of extension and modification were being developed. We understand that an announcement to extend TCLP is pending policy approval within Treasury.

Moody's Investors Service is carefully observing the Agency's ability to manage the scheduled expiration of TCLP through extension or modification of existing facilities, replacement of the facilities or redemption of the VRDOs.

Several state HFAs are in the same critical position as CalHFA – without access to sufficient private bank liquidity if TCLP expires in December 2012. Additional time will allow revaluation of the underlying loan collateral, time to demonstrate the credit worthiness of the Agency and to confirm our ability to honor financial obligations.

We are hopeful that Treasury will announce the extension of TCLP by the end of the month.

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KEEP YOUR HOME CALIFORNIA℠

www.KeepYourHomeCalifornia.org

Keep Your Home California

Foreclosure Prevention Programs

CalHFA Board of Directors Meeting

July 2011

CalHFA MAC

CALHFA MORTGAGE ASSISTANCE CORPORATION

Overview

- Four programs currently offered by Keep Your Home California
  - Unemployment Mortgage Assistance
  - Mortgage Reinstatement Assistance Program
  - Principal Reduction Program
  - Transition Assistance Program

Innovation Fund

- Programs approved by US Treasury
  - Los Angeles Housing Department
    - Los Angeles Mortgage Modification Program
  - Sacramento Neighborworks
    - Short Sale Gateway Program
  - Community Housing Works
    - Community 2nd Mortgage Principal Reduction Program
- Contracts being finalized

Estimated Program Assistance

Program	Allocated Program Dollars	Projected # of Households Assisted
Unemployment	$875 million	60,500
Mortgage Reinstatement	$129 million	9,200
Principal Reduction	$772 million	16,899
Transition Assistance	$32 million	6,470
Los Angeles Housing Department	$5 million	167
Sacramento NeighborWorks	$5 million	91
Community Housing Works	$10 million	370

Los Angeles Housing Department

Mortgage Modification Program

- Program allocation $5 million for non-HAMP loans
- Program funds will compensate lenders for forgiven principal in order to facilitate loan modifications
- Compensation to lenders will be between $0.06 - $0.21 for each $1.00 of principal forgiven depending on stage of delinquency and loan to value
- Maximum amount per household is $50,000/Average amount per household estimated at $27,000

Sacramento NeighborWorks

Short Sale Gateway Program

- Program allocation $5 million
- Program funds will be used as an incentive to the existing lender to facilitate or enable a short sale of the property to NeighborWorks Sacramento
- NeighborWorks Sacramento will lease the property back to the original homeowner with an option to purchase
- The homeowners must pre-qualify at the time of the short sale and again at the time of loan assumption
- Compensation to the lender will be targeting 20% of the negative equity not to exceed 80% of the unpaid principal balance of the loan

Community HousingWorks

Community 2nd Mortgage Principal Reduction Program

- Program allocation $10 million, estimated to assist approximately 370 households
- Program funds will provide capital on a 35/65 matching basis with participating “community lenders
- Reduce/eliminate outstanding principal balance on amortizing “affordable” seconds
- Compensation to lenders will be $0.35 for each $1.00 of principal forgiven
- Maximum amount per household is $50,000/Average amount per household estimated at $22,000

26 Servicers currently participating

- All four KYHC Programs
  - CalHFA
  - CA Department of Veterans Affairs
  - GMAC
  - Guild Mortgage
  - Community Trust/Self Help
  - Vericrest Financial
- Bank of America PRP

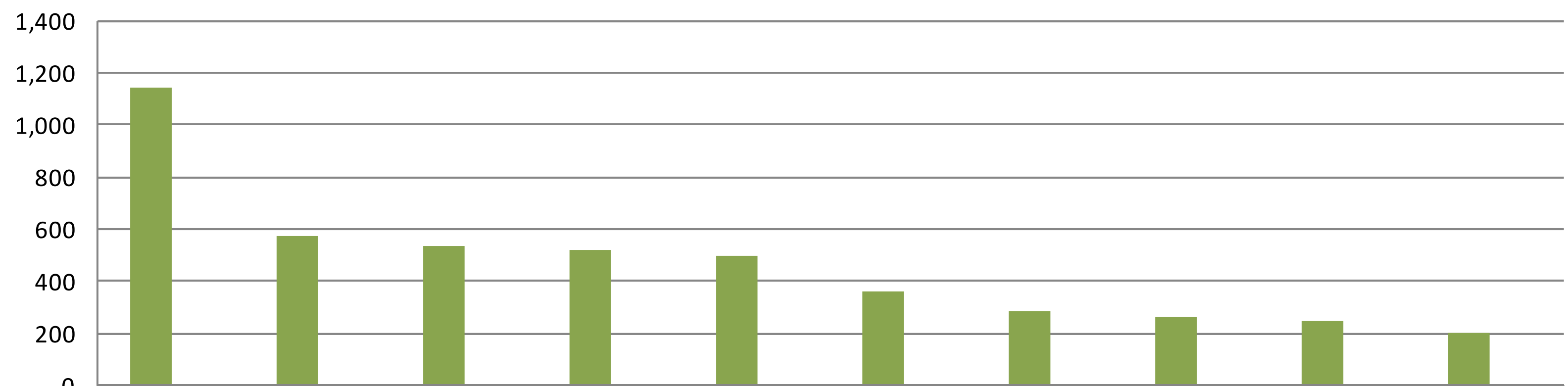
Production
Homeowner Action Plans by Program

Total HAP Transactions (9/30/10 - 6/30/11)

	HAP's		Homeowners Assisted			
	#	%	#	Fund $	Committed $	Total
UMA	2,679	40.16%	856	$3,637,771	$5,899,095	$9,536,866
MRAP	3,009	45.11%	78	$920,521	$72,639	$993,160
PRP	941	14.11%	77	$1,321,016	$2,360,037	$3,681,053
TAP	42	0.63%	11	$55,000	$0	$55,000
	6,671	100.00%	1,022	$5,934,308	$8,331,771	$14,266,079

Top 10 HAP Counties

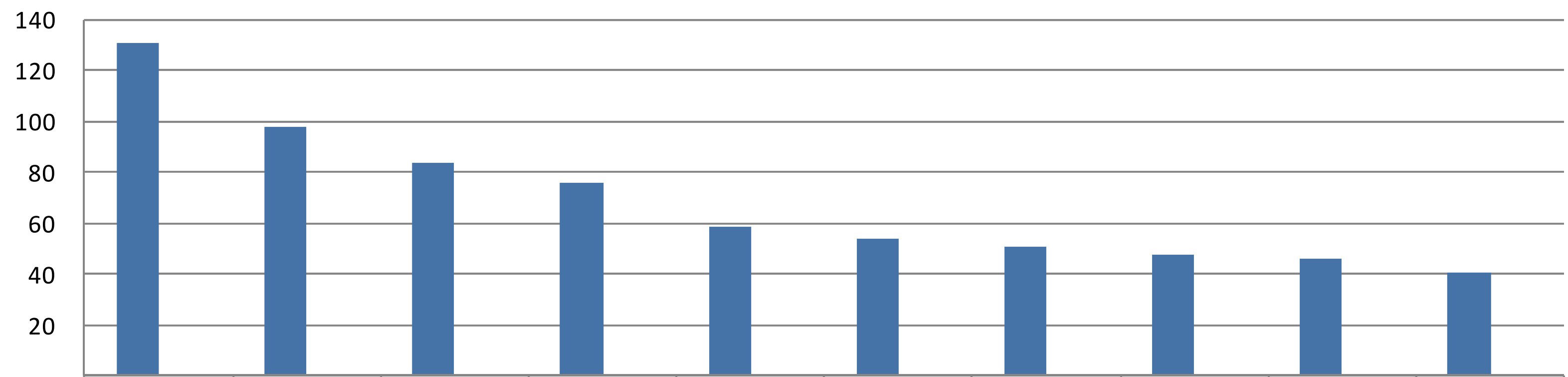
(Total Count = 6,617)



	Los Angeles	Riverside	San Diego	Sacramento	San Bernardino	Orange	Contra Costa	Alameda	Santa Clara	Fresno
Count	1,145	570	533	522	498	358	284	260	249	200
%	17.30%	8.61%	8.06%	7.89%	7.53%	5.41%	4.29%	3.93%	3.76%	3.02%

Top 10 Assistance Counties

(Total Count = 1,022)



	Los Angeles	Sacramento	Riverside	San Diego	San Bernardino	Alameda	Contra Costa	Orange	San Joaquin	Santa Clara
Count	131	98	84	76	59	54	51	48	46	41
%	12.82%	9.59%	8.22%	7.44%	5.77%	5.28%	4.99%	4.70%	4.50%	4.01%

Marketing

- Community Outreach Manager
- PSAs
- Traffic Sponsorships
- Billboards
- Mailings
- Experian
- EDD

For more information,

please visit

www.KeepYourHomeCalifornia.org

1-888-954-KEEP (5337)

or contact

Di Richardson - drichardson@calhfa.ca.gov (916)326.8082

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State of California

M E M O R A N D U M

To: Board of Directors

Date: July 8, 2011

Bruce D. Gilbertson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: Homeownership Loan Portfolio Update

Attached for your information is a report summarizing the Agency's Homeownership loan portfolio:

- Delinquencies as of April 30, 2011 by insurance type,
- Delinquencies as of April 30, 2011 by product (loan) type,
- Delinquencies as of April 30, 2011 by loan servicer,
- Delinquencies as of April 30, 2011 by county,
- A chart of the number of CalHFA's FHA Delinquent Loan Trend for 30-90 Day and 120 Day (for the period of January 2009 thru April 2011)
- A chart of the number of CalHFA's Conventional Delinquent Loan Trend for 30-90 Day and 120 Day (for the period of January 2009 thru April 2011)
- A graph of CalHFA's 90-day+ ratios for FHA and Conventional loans (for the period of April 2006 through April 2011),
- A graph of 90-day+ ratios for CalHFA's three Conventional loan (products) types, for the period of April 2009 through April 2011,
- Real Estate Owned (REO) at May 31, 2011,
- Accumulated Uninsured Losses from January 1, 2008 through May 31, 2011,
- Disposition of 1st Trust Deed Gain/(Loss) for January 1 through May 31, 2011, and
- Write-Offs of subordinate loans for January 1 through May 31, 2011

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California Housing Finance Agency

CalHFA

HOMEOWNERSHIP LOAN PORTFOLIO
DELINQUENCY, REO, SHORT SALE and LOSS REPORT

Reconciled Loan Delinquency Summary
All Active Loans By Insurance Type
As of April 30, 2011

				DELINQUENCY RATIOS - % of Loan Count							
	Loan Count	Balance	% of Balance	Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Totals Count	Totals %
Federal Guaranty											
FHA	10,338	$ 1,332,150,945	29.24%	570	5.51%	207	2.00%	931	9.01%	1,708	16.52%
VA	326	47,128,487	1.03%	6	1.84%	3	0.92%	34	10.43%	43	13.19%
RHS	90	16,910,515	0.37%	4	4.44%	0	0.00%	15	16.67%	19	21.11%
Conventional loans											
with MI											
CalHFA MI Fund	7,024	1,877,307,845	41.20%	268	3.82%	136	1.94%	892	12.70%	1,296	18.45%
without MI											
Orig with no MI	5,369	1,083,380,564	23.78%	135	2.51%	56	1.04%	257	4.79%	448	8.34%
MI Cancelled*	1,421	199,817,175	4.39%	25	1.76%	10	0.70%	49	3.45%	84	5.91%
Total CalHFA	24,568	$ 4,556,695,531	100.00%	1,008	4.10%	412	1.68%	2,178	8.87%	3,598	14.65%

*Cancelled per Federal Homeowner Protection Act of 1998, which grants the option to cancel the MI with 20% equity.

Reconciled Loan Delinquency Summary
All Active Loans By Loan Type
As of April 30, 2011

				DELINQUENCY RATIOS - % of Loan Count							
	Loan Count	Balance	% of Balance	Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Totals Count	Totals %
30-yr level amort											
FHA	10,338	$ 1,332,150,945	29.24%	570	5.51%	207	2.00%	931	9.01%	1,708	16.52%
VA	326	47,128,487	1.03%	6	1.84%	3	0.92%	34	10.43%	43	13.19%
RHS	90	16,910,515	0.37%	4	4.44%	0	0.00%	15	16.67%	19	21.11%
Conventional - with MI	3,640	871,725,183	19.13%	122	3.35%	50	1.37%	333	9.15%	505	13.87%
Conventional - w/o MI	5,946	1,081,692,012	23.74%	126	2.12%	45	0.76%	239	4.02%	410	6.90%
40-yr level amort											
Conventional - with MI	539	155,425,183	3.41%	21	3.90%	15	2.78%	89	16.51%	125	23.19%
Conventional - w/o MI	212	42,300,148	0.93%	9	4.25%	4	1.89%	11	5.19%	24	11.32%
5-yr IOP, 30-yr amort											
Conventional - with MI	2,845	850,157,479	18.66%	125	4.39%	71	2.50%	470	16.52%	666	23.41%
Conventional - w/o MI	632	159,205,579	3.49%	25	3.96%	17	2.69%	56	8.86%	98	15.51%
Total CalHFA	24,568	$ 4,556,695,531	100.00%	1,008	4.10%	412	1.68%	2,178	8.87%	3,598	14.65%
	Weighted average of conventional loans:			428	3.10%	202	1.46%	1,198	8.67%	1,828	13.23%

California Housing Finance Agency

CalHFA

Reconciled Loan Delinquency Summary
All Active Loans By Loan Servicer
As of April 30, 2011

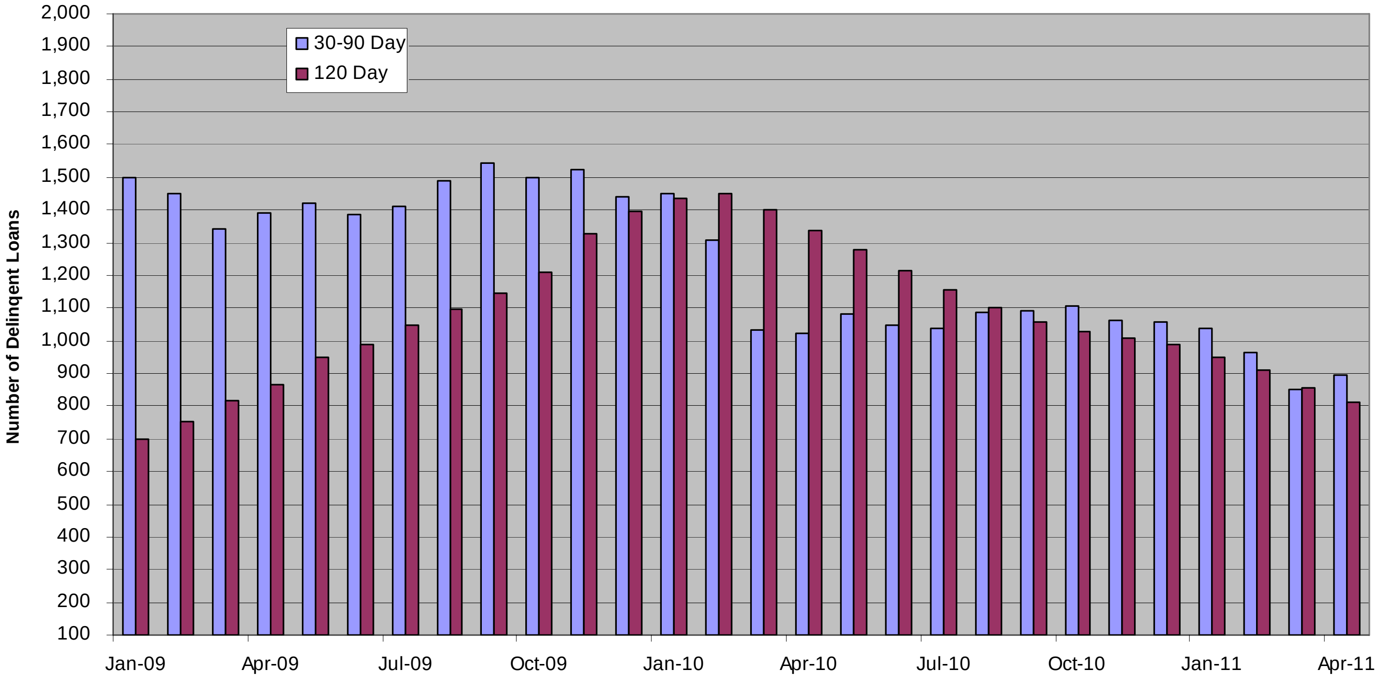
	Loan Count	Balance	% of Balance	DELINQUENCY RATIOS - % of Loan Count							
				Loan Count	30-Day	Loan Count	60-Day	Loan Count	90(+) Day	Totals Count	Totals %
CALHFA - LOAN SERVICING	9,163	$ 2,092,784,790	45.93%	316	3.45%	136	1.48%	551	6.01%	1,003	10.95%
GUILD MORTGAGE	5,723	1,017,350,776	22.33%	278	4.86%	93	1.63%	468	8.18%	839	14.66%
BAC HOME LOANS SERVICING, LP	2,524	496,811,627	10.90%	139	5.51%	71	2.81%	617	24.45%	827	32.77%
WELLS FARGO HOME MORTGAGE	2,459	291,134,384	6.39%	80	3.25%	38	1.55%	150	6.10%	268	10.90%
EVERHOME MORTGAGE COMPANY	2,140	208,696,951	4.58%	115	5.37%	22	1.03%	79	3.69%	216	10.09%
FIRST MORTGAGE CORP	1,014	204,474,254	4.49%	32	3.16%	27	2.66%	160	15.78%	219	21.60%
GMAC MORTGAGE CORP	935	128,494,562	2.82%	37	3.96%	16	1.71%	64	6.84%	117	12.51%
BANK OF AMERICA, NA	288	48,711,796	1.07%	5	1.74%	6	2.08%	40	13.89%	51	17.71%
WASHINGTON MUTUAL BANK	214	51,851,133	1.14%	5	2.34%	1	0.47%	40	18.69%	46	21.50%
CITIMORTGAGE, INC.	55	12,664,666	0.28%	1	1.82%	2	3.64%	8	14.55%	11	20.00%
DOVENMUEHLE MORTGAGE, INC.	46	1,506,393	0.03%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
WESCOM CREDIT UNION	6	1,903,640	0.04%	0	0.00%	0	0.00%	1	16.67%	1	16.67%
PROVIDENT CREDIT UNION	1	310,560	0.01%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Total CalHFA	24,568	$ 4,556,695,531	100.00%	1,008	4.10%	412	1.68%	2,178	8.87%	3,598	14.65%

Reconciled Loan Delinquency Summary
All Active Loans By County
As of April 30, 2011

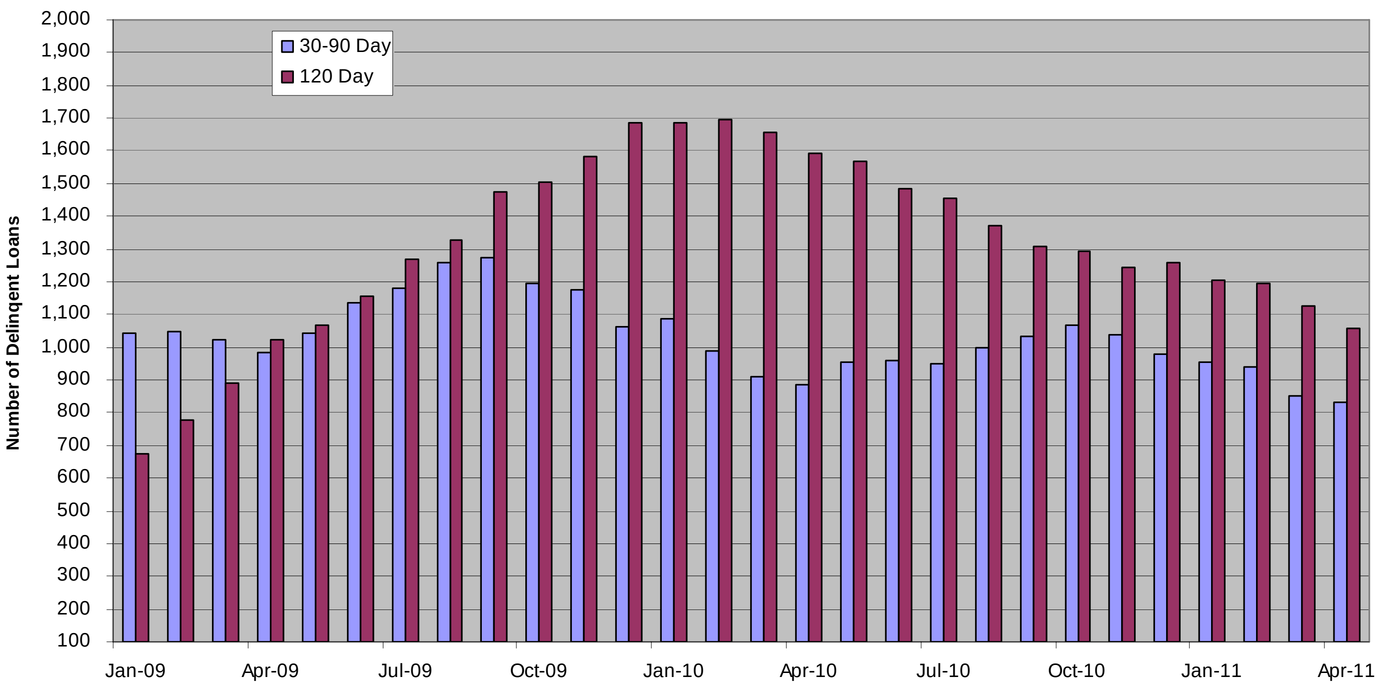
	Loan Count	Balance	% of Balance	DELINQUENCY RATIOS - % of Loan Count							
				Loan Count	30-Day	Loan Count	60-Day	Loan Count	90-Day+	Total Count	Total %
LOS ANGELES	3,976	$ 836,083,212	18.35%	166	4.18%	55	1.38%	311	7.82%	532	13.38%
SAN DIEGO	2,375	519,747,637	11.41%	76	3.20%	43	1.81%	264	11.12%	383	16.13%
SANTA CLARA	1,706	460,580,721	10.11%	36	2.11%	14	0.82%	103	6.04%	153	8.97%
KERN	1,475	163,003,951	3.58%	85	5.76%	34	2.31%	143	9.69%	262	17.76%
SACRAMENTO	1,274	235,270,312	5.16%	45	3.53%	27	2.12%	151	11.85%	223	17.50%
SAN BERNARDINO	1,240	214,133,984	4.70%	60	4.84%	30	2.42%	200	16.13%	290	23.39%
ORANGE	1,223	282,143,489	6.19%	41	3.35%	18	1.47%	78	6.38%	137	11.20%
RIVERSIDE	1,217	205,048,295	4.50%	61	5.01%	23	1.89%	209	17.17%	293	24.08%
FRESNO	1,169	110,635,740	2.43%	74	6.33%	22	1.88%	62	5.30%	158	13.52%
TULARE	1,162	111,627,888	2.45%	79	6.80%	21	1.81%	97	8.35%	197	16.95%
ALAMEDA	1,066	260,254,875	5.71%	33	3.10%	11	1.03%	59	5.53%	103	9.66%
CONTRA COSTA	872	196,197,520	4.31%	33	3.78%	21	2.41%	89	10.21%	143	16.40%
VENTURA	616	165,397,092	3.63%	11	1.79%	10	1.62%	41	6.66%	62	10.06%
IMPERIAL	534	54,626,293	1.20%	35	6.55%	12	2.25%	34	6.37%	81	15.17%
SONOMA	464	95,294,037	2.09%	12	2.59%	5	1.08%	26	5.60%	43	9.27%
OTHER COUNTIES	4,199	646,650,485	14.19%	161	3.83%	66	1.57%	311	7.41%	538	12.81%
Total CalHFA	24,568	$ 4,556,695,531	100.00%	1,008	4.10%	412	1.68%	2,178	8.87%	3,598	14.65%

California Housing Finance Agency

CalHFA's FHA Delinquent Loan Trend for 30-90 Day and 120 Day



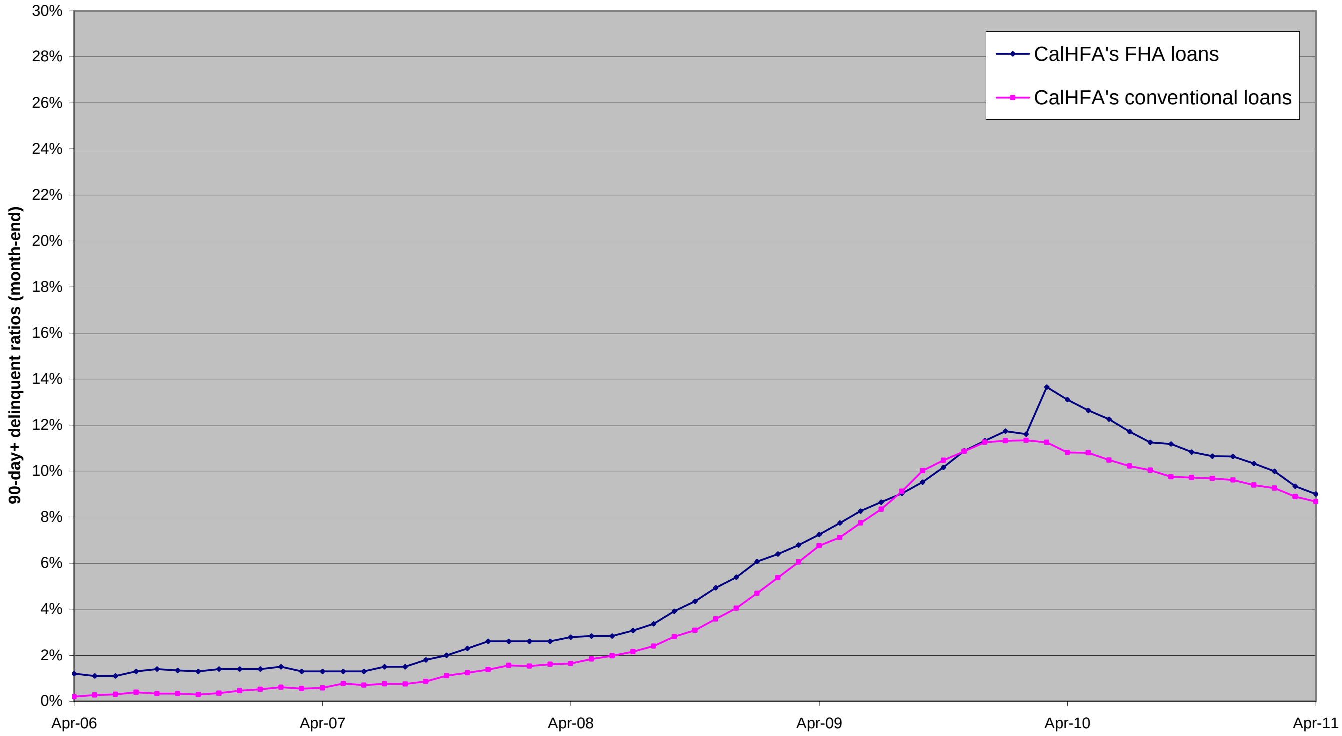
CalHFA's Conventional Delinquent Loan Trend for 30-90 Day and 120 Day



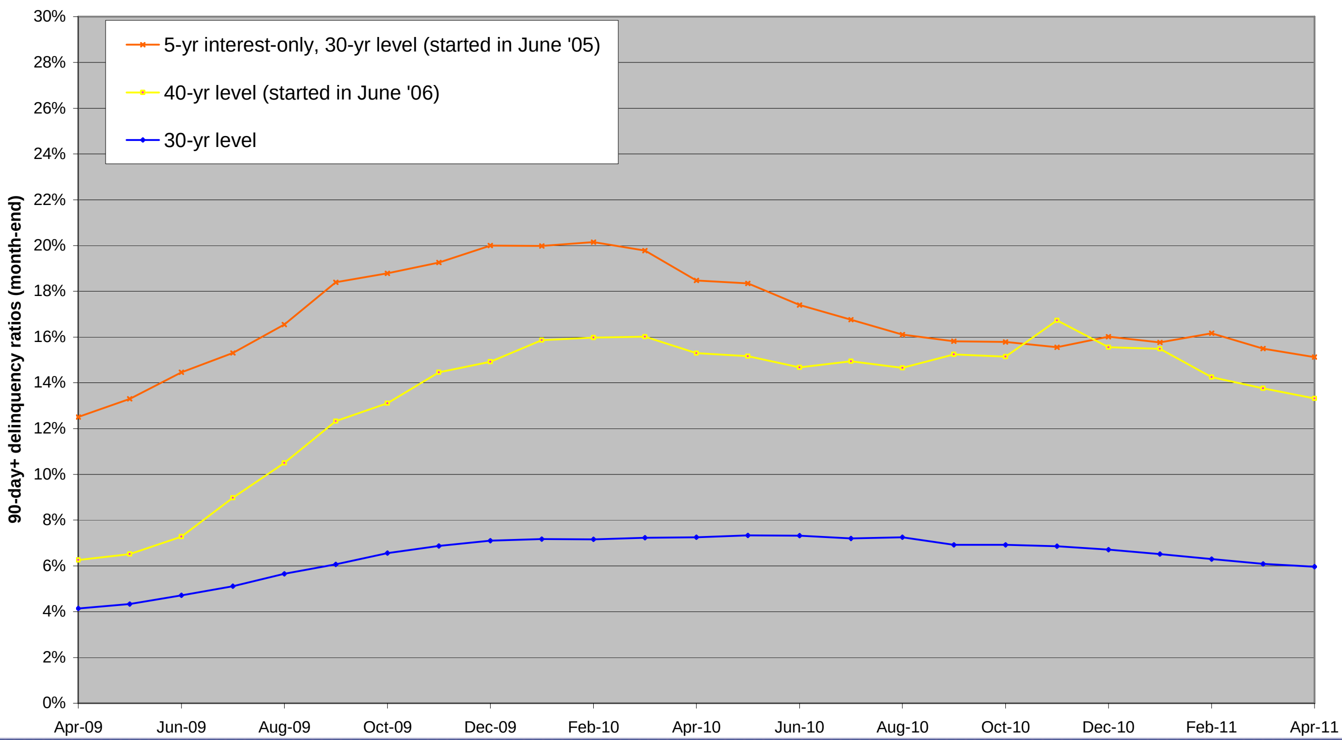
California Housing Finance Agency

CalHFA

90-day+ delinquent ratios for CalHFA's FHA and weighted average of all conventional loans



90-day+ delinquent ratios for CalHFA's Three Conventional Loan Types



Real Estate Owned

Calendar Year 2011 (As of May 31, 2011)												
		*Trustee Sales			Disposition of REO(s)							
Loan Type	Beginning Balance # of Loans	Reverted to CalHFA Jan-Apr	Reverted to CalHFA May	Total Trustee Sales	Repurchased by Lender Jan-Apr	Market Sale(s) Jan-Apr	Repurchased by Lender May	Market Sale(s) May	Total Disposition of REO(s)	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	198	253	36	289	234		46		280	207	$ 39,994,302
Conventional	1084	522	127	649		575		191	766	967	200,370,004
Total	1282	775	163	938	234	575	46	191	1,046	1,174	$ 240,364,306

Calendar Year 2010						
		*Trustee Sales	Disposition of REO(s)			
Loan Type	Beginning Balance # of Loans	Reverted to CalHFA 2010	Repurchased by Lender 2010	Market Sale(s) 2010	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	187	816	805		198	$ 41,905,865
Conventional	619	1551		1086	1084	226,793,920
Total	806	2367	805	1086	1282	$ 268,699,784

Calendar Year 2009						
		*Trustee Sales	Disposition of REO(s)			
Loan Type	Beginning Balance # of Loans	Reverted to CalHFA 2009	Repurchased by Lender 2009	Market Sale(s) 2009	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	51	588	452		187	$ 40,850,369
Conventional	226	929		536	619	150,498,899
Total	277	1517	452	536	806	$191,349,268

**3rd party trustee sales are not shown in the tables (tltle to these loans were never transferred to CalHFA). There were eight (8) 3rd party sales in calendar year 2008, eighteen (18) 3rd party sales year 2009, thirty-nine (39) 3rd party sales year 2010, and there are eight (8) 3rd party sales to date for 2011.*

California Housing Finance Agency

CalHFA

Accumulated Uninsured Losses [1] as of May 31, 2011				
Conventional Loans	# of Properties	Estimated Indenture Losses	Estimated GAP[2] Losses	Subordinate Write-Offs
REOs Sold	2,460	$ (51,458,225)	$ (95,411,167)	$ (65,908,651)
Short Sales	559	(6,353,583)	(17,804,183)	(13,604,465)
3rd Party Sales (FHA/Conv)	73		(170,867)	(369,642)
Active REOs	240		(11,486,904)	
Total Gain(Loss)/Write-Offs	3,332	$ (57,811,808)	$ (124,873,121)	$ (79,882,758)

(1) Includes both reconciled and estimated unreconciled gains/losses from January 1, 2008.

(2) The California Housing Loan Insurance Fund (the MI Fund") provides GAP insurance to meet HMRB bond indenture requirements that all loans held within that indenture have 50% of the unpaid principal balance insured by a mortgage insurance policy for the life of the loan. The insurance may be provided by any combination of government insurance, private mortgage insurance, or a policy from the MI fund. The Agency has currently agreed, pursuant to an internal interfund agreement, to indemnify the MI Fund for claims paid for principal losses under the GAP insurance policy, up to a cumulative maximum amount of $135 million . The indemnification is payable solely from available funds held in a sub account within the California Housing Finance Fund. The interfund agreement may be modified or terminated by the Agency at any time.

2011 Year to Date Composition of 1st Trust Deed Gain/(Loss)
(As of May 31, 2011)

	Disposition					
Loan Type	Repurchased by Lender	Market Sales	Short Sales	Loan Balance at Sales	Estimated Indenture Gain/(Loss)	Estimated GAP Loss
FHA/RHS/VA	280		7	$ 60,096,194		
Conventional		766	92	230,183,553	$ (15,553,884)	$ (35,670,731)
	280	766	99	$ 290,279,748	$ (15,553,884)	$ (35,670,731)

2011 Year to Date Composition of Subordinate Write-Offs by Loan Type[1]
(As of May 31, 2011)

	Active Loans		Write-Offs			
Loan Type	**Active Loans**	**Dollar Amount**	**Number of Write-Offs**	**% (of Portfolio)**	**Dollar Amount**	**% (of Portfolio)**
CHAP/HiCAP	9,876	$105,506,870	759	7.69%	$8,737,213	8.28%
CHDAP/ECTP/HiRAP	19,852	162,648,966	800	4.03%	6,493,168	3.99%
Other [2]	268	3,506,607	0	0.00%	0	0.00%
	29,996	$271,662,443	1,559	5.20%	$15,230,381	5.61%

(1) Does not include FNMA and CalSTRS subordinates (non-agency loans serviced by in house loan servicing)
(2) Includes HPA, MDP, OHPA, and SSLP.

State of California

M E M O R A N D U M

To: Board of Directors **Date:** July 8, 2011

Bruce D. Gilbertson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: VARIABLE RATE BONDS AND INTEREST RATE SWAPS REPORT

Over a number of years the Agency has integrated the use of variable rate debt as a primary issuance strategy in providing capital to support its programmatic goals. Most of our interest rate exposure from variable rate debt is hedged in the swap market.

The following report describes our variable rate bond and interest rate swap positions as well as the related risks associated with this financing strategy. The report is divided into sections as follows:

- Variable Rate Debt Exposure
- Unhedged Variable Rate Debt
- Hedged Variable Rate Debt
- Basis Risk
- Amortization Risk
- Termination Risk
- Types of Variable Rate Debt
- Liquidity Providers

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VARIABLE RATE DEBT EXPOSURE

This report describes the variable rate bonds of CalHFA and is organized programmatically by indenture as follows: HMRB (Home Mortgage Revenue Bonds--CalHFA's largest single family indenture), MHRB (Multifamily Housing Revenue Bonds III--CalHFA's largest multifamily indenture), HPB (Housing Program Bonds--CalHFA's multipurpose indenture, used to finance a variety of loans including the Agency's downpayment assistance loans) and the Agency's newest indentures which were established to take advantage of the federal government's New Issue Bond Program: RMRB (Residential Mortgage Revenue Bonds—for single family loans), and AMHRB (Affordable Multifamily Housing Revenue Bonds—for multifamily loans.) The total amount of CalHFA variable rate debt is $5.2 billion, 65.7% of our $7.9 billion of total indebtedness as of July 1, 2011.

VARIABLE RATE DEBT
($ in millions)

	Tied Directly to Variable Rate Assets	Swapped to Fixed Rate	Not Swapped or Tied to Variable Rate Assets	Total Variable Rate Debt
HMRB	$0	$1,916	$1,400	$3,316
MHRB	0	528	218	746
HPB	0	0	79	79
RMRB *	872	0	0	872
AMHRB *	216	0	0	216
Total	$1,088	$2,444	$1,697	$5,229

* *The RMRB and AMHRB bonds are variable rate index bonds during the initial escrow period. After each public offering (up to six times before the end of 2011), they will be released from escrow and converted to fixed rate debt. The debt service payment of the bonds during the escrow period is equal to the interest earned from the money market funds in which the proceeds are invested.*

UNHEDGED VARIABLE RATE DEBT

As shown in the table above, our "net" variable rate exposure is $1.7 billion, 21.3% of our indebtedness. The net amount of variable rate bonds is the amount that is neither swapped to fixed rates nor directly backed by complementary variable rate loans or investments. The $1.7 billion of net variable rate exposure ($810 million taxable and $887 million tax-exempt) is offset by the Agency's balance sheet and excess swap positions. While our current net exposure is not tied directly to variable rate assets, we have approximately $805 million (six month average balance) of other Agency funds invested in the State Treasurer's investment pool (SMIF) earning a variable rate of interest. From a risk management perspective, the $805 million is a balance sheet hedge for the $1.7 billion of net variable rate exposure.

The net variable rate exposure is further reduced by two other considerations: 1) as mentioned in the Amortization Risk section of this report, we have $362.9 million notional amount of interest rate swaps in excess of the original bonds they were to hedge, and 2) a portion of our unhedged exposure is tax-exempt debt which resets at the average 2010 ratio of 96% of Libor. These two considerations serve to reduce the net effective variable rate exposure to the equivalent of $1.3 billion of LIBOR-based debt. As a result, the $805 million of other Agency funds invested in SMIF effectively hedges approximately 61.2% of our current net variable rate exposure.

In addition, taking unhedged variable rate exposure mitigates the amortization risk without the added cost of purchasing swap optionality. Our unhedged variable rate bonds are callable on any date and allow for bond redemption or loan recycling without the cost of par termination rights or special bond redemption provisions. In addition, taking unhedged variable rate exposure diversifies our interest rate risks by providing benefits when short-term interest rates rise slower than the market consensus. In a liability portfolio that is predominately hedged using long-dated swaps, the unhedged exposure balances the interest rate profile of the Agency's outstanding debt.

HEDGED VARIABLE RATE DEBT

Currently, we have a total of 106 "fixed-payer" swaps with thirteen different counterparties for a combined notional amount of $2.8 billion. All of these fixed-payer swaps are intended to establish synthetic fixed rate debt by converting our variable rate payment obligations to fixed rates. The table below provides a summary of our swap notional amounts.

FIXED PAYER INTEREST RATE SWAPS
(notional amounts)
($ in millions)

	Tax-Exempt	Taxable	Totals
HMRB	$1,956	$256	$2,212
MHRB	594	0	594
HPB	0	0	0
TOTALS	$2,550	$256	$2,806

The following table shows the diversification of our fixed payer swaps among the thirteen firms acting as our swap counterparties.

SWAP COUNTERPARTIES

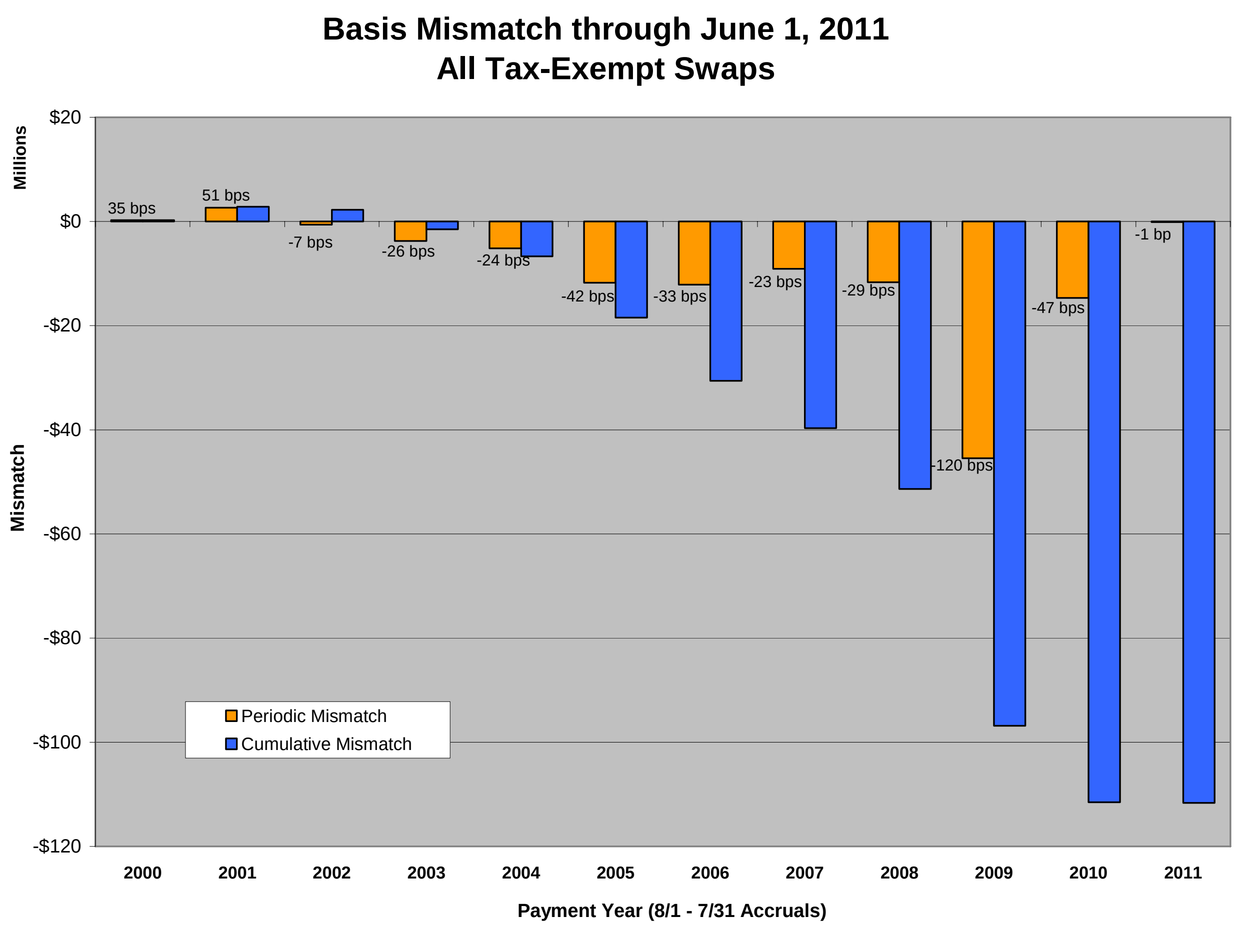
Swap Counterparty	Credit Ratings Moody's	S & P	Notional Amounts Swapped as of 3/1/11 ($ in millions)	Number of Swaps
JPMorgan Chase Bank, N.A.	Aa1	AA-	$ 782.2	21
Merrill Lynch Capital Services, Inc.	A2	A	602.6	29
Citigroup Financial Products, Inc.	A3	A	355.2	10
Goldman Sachs Mitsui Marine Derivative Products, , L.P.	Aa1	AAA	244.7	8
Deutsche Bank AG	Aa3	A+	219.4	11
AIG Financial Products, Corp.	Baa1	A-	208.5	7
Morgan Stanley Capital Services, Inc.	A2	A	127.9	2
Bank of America, N.A.	Aa3	A+	76.8	5
Merrill Lynch Derivative Products	Aa3	AAA	67.3	7
BNP Paribas	Aa2	AA	63.3	2
Bank of New York Mellon	Aaa	AA	25.0	1
UBS AG	Aa3	A+	23.0	2
Dexia Credit Local New York Agency	A1	A	10.8	1
			$ 2,806.6 *	106

** Basis Swaps not included in totals*

For all of our fixed-payer swaps, we receive floating rate payments from our counterparties in exchange for a fixed-rate obligation on our part. In today's market, the net periodic payment owed under these swap agreements is from us to our counterparties. As an example, on our February 1, 2011 semiannual debt service payment date we made a total of $57.8 million of net payments to our counterparties. Conversely, if short-term rates were to rise above the fixed rates of our swap agreements, then the net payment would run in the opposite direction, and we would be on the receiving end.

<u>BASIS RISK</u>

Almost all of our swaps contain an element of what is referred to as "basis risk" – the risk that the floating rate component of the swap will not match the floating rate of the underlying bonds. This risk arises because our swap floating rates are based on indices, which consist of market-wide averages, while our bond floating rates are specific to our individual bond issues. The only exception is where our taxable floating rate bonds are index-based, as is the case of the taxable floaters we have sold to the Federal Home Loan Banks. The chart below is a depiction of the basis mismatch that we have encountered since 2000 when we entered the swap market.



As the chart shows, the relationship between the two floating rates changes as market conditions change. Some of the conditions that contributed to our extreme basis mismatch in 2009 and early 2010 were the collapse of the auction rate securities market, the impact of bond insurer downgrades, the funding of bank bonds at higher rates, and SIFMA/LIBOR ratio at historically high levels over 100% We responded to the market disruption by refunding, converting, or otherwise modifying many of the under performing auction rate securities and insured VRDOs, and we eliminated bank bonds by taking advantage of the Temporary Credit and Liquidity Program offered by the federal government.

The new Temporary Credit and Liquidity Program from the federal government and the GSEs has significantly reduced basis mismatch. As part of this process, all bond insurance was removed from VRDOs and the federal government now provides direct credit support on all CalHFA VRDOs. This has allowed CalHFA VRDOs to reset with little or no spread to SIFMA. Since January 2010, our VRDOs have reset at an average of 1 basis point or 0.01% below SIFMA, whereas in 2009, our VRDOs were resetting at an average of 106 basis points or 1.06% above SIFMA. In the first 16 months under the TCLF, the basis mismatch is negative 1 basis points or -0.01%, as compared to 111 basis points or 1.11% for the twelve months preceeding the TCLF. The reduced basis mismatch has resulted in debt service savings of approximately $49 million in the first 16 months. The main risk that exists is that the SIFMA/LIBOR ratio continues to be high and as market rates rise our basis mismatch may remain higher than expected due to general market conditions. Over the lifetime of our swaps we have experienced approximately $124 million of additional interest expense due to this basis mismatch.

The floating formulas of Agency swaps are usually indexed to LIBOR or SIFMA. LIBOR is the London Interbank Offered Rate index which is used to benchmark taxable floating rate debt, and SIFMA is the Securities Industry and Financial markets Association Index to benchmark tax-exempt variable rates. When the SIFMA/LIBOR ratio is very high, the swap payment we receive falls short of our bond payment, and the all-in rate we experience is somewhat higher. The converse is true when the percentage is low. We continually monitored the SIFMA/LIBOR relationship and the performance of our swap formulas and made certain adjustments to the formula. The following table displays the SIFMA/LIBOR ratio for the past eight calendar years.

Average SIFMA/LIBOR Ratio			
2004	81.7%	2008	83.7%
2005	72.5%	2009	122.9%
2006	67.6%	2010	96.4%
2007	69.1%	2011 to date	99.6%

The table below shows the diversification of variable rate formulas used for determining the payments received from our interest rate swap counterparties.

BASIS FOR VARIABLE RATE PAYMENTS
RECEIVED FROM SWAP COUNTERPARTIES
(notional amounts)
($ in millions)

	Tax-Exempt	Taxable	Totals
% of LIBOR (+ spread)	$1,877	$0	$1,877
SIFMA (+ spread)	412	0	412
Stepped % of LIBOR [1]	240	0	240
3 mo. LIBOR (+ spread)_	0	154	154
% of SIFMA	20	0	20
1 mo. LIBOR	0	60	60
3 mo. LIBOR	0	24	24
6 mo. LIBOR	0	19	19
TOTALS	$2,549	$257	$2,806

[1] Stepped % of LIBOR – This formula has seven incremental steps where at the low end of the spectrum the swap counterparty would pay us 85% of LIBOR if rates should fall below 1.25% and at the high end it would pay 60% of LIBOR if rates are greater than 6.75%.

AMORTIZATION RISK

Our bonds are generally paid down (redeemed or paid at maturity) as our loans are prepaid. Our interest rate swaps amortize over their lives based on assumptions about the receipt of prepayments, and the single family transactions which include swapped bonds have generally been designed to accommodate prepayment rates between two and three times the “normal” rate. Our interest rate swaps generally have had fixed amortization schedules that can be met under what we have believed were sufficiently wide ranges of prepayment speeds.

The table below shows the speed at which the Agency's single family first mortgage loans have been prepaying for the past five years.

SEMI-ANUAL PREPAYMENT SPEED
FOR PAST FIVE YEARS

6-mo Period Ending:	PSA
Dec-2005	643%
Jun-2006	320%
Dec-2006	241%
Jun-2007	156%
Dec-2007	81%
Jun-2008	60%
Dec-2008	58%
Jun-2009	89%
Dec-2009	128%
Jun-2010	165%
Dec-2010	236%

Of interest is an $362.9 million overswap mismatch between the notional amount of certain of our swaps and the outstanding amount of the related bonds. This mismatch has occurred for two reasons: 1) as a result of the interplay between loan prepayments and the "10-year rule" of federal tax law and 2) the strategic debt management of the Agency to redeem bonds that were hedged but were associated with troubled or problematic financial partners. While some of our bonds are "over-swapped", there are significantly more than enough unswapped variable rate bonds to compensate for the mismatch. To mitigate our overswapped position, we continually monitor the termination value of our "excess swap" position looking for opportunities to unwind these positions when market terminations would be at minimal cost or a positive value to us and by exercising the par swap options as they become available.

TERMINATION RISK

Termination risk is the risk that, for some reason, our interest rate swaps must be terminated prior to their scheduled maturity. Our swaps have a market value that is determined based on current interest rates. When current fixed rates are higher than the fixed rate of the swap, our swaps have a positive value to us (assuming, as is the case on all of our swaps today, that we are the payer of the fixed swap rate), and termination would result in a payment from the provider of the swap (our swap "counterparty") to us. Conversely, when current fixed rates are lower than the fixed rate of the swap, our swaps have a negative value to us, and termination would result in a payment from us to our counterparty.

Our swap documents allow for a number of termination "events," i.e., circumstances under which our swaps may be terminated early, or "unwound". One circumstance that would cause termination would be a payment default on the part of either counterparty. Another circumstance would be a sharp drop in either counterparty's credit ratings and, with it, an inability (or failure) of the troubled counterparty to post sufficient collateral to offset its credit problem. It should be noted that, if termination is required under the swap documents, the market determines the amount of the termination payment and who owes it to whom. Depending on the market, it may be that the party who has caused the termination is owed the termination payment.

The table below shows the required collateral amounts currently posted to swap counterparties. In the past months, falling interest rates have caused the swaps to have a negative value to the Agency thereby increasing the amount of collateral being posted to the counterparties.

Swap Collateral Posting
as of 7/5/2011
($ in millions)

	JPMorgan	Goldman Sachs	BofA / Merrill Lynch	Deutsche	AIG	Total
Marked-to-Market	77.2	29.1	25.4	34.8	10.3	
Collateral Threshold	40	15	5	30	10	
Posting Requirment *	37.2	14.1	20.4	4.8	0.3	76.8
Agency MBS Posted	25.1	0	0	0	0	25.1
Agency Cash Posted	12.2	14.2	20.4	4.8	0.3	51.9

** JP - minimum posting is $18M*

The Government Accounting Standards Board (GASB) statement No. 53 requires that the market value of all of our swaps be disclosed in the notes to our financial statements. In addition, this accounting standard requires that the Agency's balance sheets and income statements recognize the market value of certain interest rate swaps that are deemed not to be "effective hedges" using the measurement tests provided in GASB 53. The Agency has adopted GASB statement No. 53 for financial statements as of June 30, 2010 and for the fiscal year ended June 30, 2010.

Monthly we monitor the termination value of our swap portfolio as it grows and as interest rates change. The table below shows a quarterly history of the fluctuating negative value of our swap portfolio for the past year.

TERMINATION VALUE HISTORY

Date	Termination Value ($ in millions)
6/30/10 *	($329.6)
9/30/10	($353.7)
12/31/10	($257.5)
3/31/11	($232.0)
6/30/11	($252.3)

** As reported in the Financial Statements*

TYPES OF VARIABLE RATE DEBT

The following table shows our variable rate debt sorted by type, i.e., whether auction rate, indexed rate, or variable rate demand obligations (VRDOs). Auction and indexed rate securities cannot be "put" back to us or to a third party by investors; hence they typically bear higher rates of interest than do "put-able" bonds such as VRDOs.

TYPES OF VARIABLE RATE DEBT
($ in millions)

	Auction Rate & Similar Securities	Indexed Rate Bonds	Variable Rate Demand Obligations	Total Variable Rate Debt
HMRB	$0	$966	$2,350	$3,316
MHRB	156	0	590	746
HPB	0	0	79	79
RMRB	0	872	0	872
AMHRB	0	216	0	216
Total	$156	$2,054	$3,019	$5,229

LIQUIDITY PROVIDERS

On October 19, 2009, the United States Treasury (Treasury) announced a new initiative for state and local housing finance agencies (HFAs) to provide a new bond purchase program to support new lending by HFAs and to provide a temporary credit and liquidity program (TCLP) to improve access of HFAs to liquidity for outstanding HFA bonds. On December 23, 2009, the Agency closed eight TCLP transactions with Treasury to replace the liquidity for $3.5 billion of variable rate bonds. The new liquidity became effective in January 2010 on the mandatory tender dates of the bonds and will expire on December 23, 2012.

The table below shows the government-sponsored enterprises (GSE) which are providing liquidity in the form of standby bond purchase agreements for our VRDOs.

LIQUIDITY PROVIDERS
As of 7/1/2011
($ in millions)

Financial Institution	$ Amount of Bonds
Freddie Mac	$1,509.5
Fannie Mae	1,509.5
Total	$3,019.0

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State of California

M E M O R A N D U M

To: **CalHFA Board of Directors** **Date:** 11 July 2011

From: **Di Richardson, Director of Legislation** Di
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Legislative Report

Below you will find an update on the list of bills I think you may be most interested in at this time. As always, if you have any bills you would like me to add to the list or have any questions, give me a call.

Bonds

AB 505 (Harkey) Housing programs: audits.
Last Amend: 05.27/111
Status: Senate Rules Committee

Summary: This bill would require the Bureau of State Audits, on or before January 1, 2013, and every 4 years thereafter, to conduct a performance audit of all programs funded through special or General Fund sources and administered by the Department of Housing and Community Development.

CalHFA Misc

AB 1222 (Gatto) California Housing Finance Agency.
Last Amend 05/12/2011
Status: 06/29/2011- Senate. Inactive File

Summary: This bill would instead require the CalHFA Board (rather than the staff) to conduct salary surveys. This bill was recently amended to include language in CalHFA's governing statutes to clarify that they take precedent over Government Code Section 1090.

Notes: This bill has been passed by both the Assembly and the Senate, but the Author has placed it on the Inactive File while he contemplates adding other components.

Homeless

AB 683 (Ammiano) Homelessness.
Last Amend: 06/13/2011
Status: Senate Appropriations

Summary: This bill would require the Department of Housing and Community Development to create a state deidentified homeless integrated data warehouse to compile data from collaborative agencies' Homeless Management Information Systems for the purpose of developing a composite portrayal of the homeless population in the state, as well as the services currently provided to people who are homeless. The bill would also require the department to cooperate and collaborate with other specified agencies, as necessary, to create a deidentified integrated data warehouse comprised of specified information on the homeless population, the services provided to them, and the annual costs of those services. Implementation of the bill would be contingent upon sufficient federal and private funds being received to create the homeless integrated data warehouse. According to the author's office, a statewide data warehouse on homelessness would improve collaboration among state agencies, allow efficient assessment of the costs of homelessness to the state, provide greater transparency in state agency and grantees' operations, help determine what interventions work to prevent or end homelessness, identify gaps in services, discover how patterns of service use relate to patterns of homelessness, analyze trends in homelessness, allow use of mainstream systems among people experiencing homelessness, and enhance planning and policy efforts to reduce homelessness.

AB 1167 (Fong) Homelessness: Interagency Council on Homelessness.
Last Amend: 06/21/2011
Status: Senate Appropriations

Summary: This bill would create the California Interagency Council on Homelessness, to perform various activities, including acting as the lead for coordinating and planning the state's response to homelessness and would require the council to seek all available federal funding for purposes of funding the council and its activities.

Land Use

AB 710 (Skinner) Local planning: infill and transit-oriented development.
Last Amend: 06/29/2011
Status: Senate Governance and Finance

Summary: This bill would state the findings and declarations of the Legislature with respect to parking requirements and infill and transit-oriented development, and would state the intent of the Legislature to reduce unnecessary government regulation and to reduce the cost of development by eliminating excessive minimum parking requirements for infill and transit-oriented development. Supporters argue that AB 710 provides a significant incentive to housing and commercial developers to pursue needed infill and TOD projects. According to supporters, increases in public transportation options and the development of more walkable and bikeable neighborhoods reduce the demand for parking. Relaxing minimum parking requirements allows developers to be more creative and efficient in supplying housing, especially in inner city areas. Opponents argue that AB 710's one-size-fits-all approach impedes local discretion in land use decision-making and ignores the fact that every community is different and has different needs. Opponents feel that decisions about parking are best left to the discretion of local governments, who are in a much better position to determine how much parking their community requires.

AB 910 (Torres) Infrastructure financing districts: facilities and projects.
Last Amend: 04/25/2011
Status: Senate Governance and Finance

Summary: Existing law authorizes counties and cities to form infrastructure financing districts, in accordance with a prescribed procedure, and requires that a district finance only public capital facilities of communitywide significance. This bill would, in addition to public capital facilities, require a district to finance affordable housing facilities and economic development projects. The bill would provide that with respect to a district proposing to implement a specified plan, an election would not be required to form a district, adopt an infrastructure financing plan, or issue bonds pursuant to existing law. According to the author, the purpose of AB 910 is to allow IFDs to be used to finance affordable housing and economic development. IFD's have been used to finance public capitol facilities, and by adding affordable housing and economic development activities, communities will have the benefit of an additional tool to finance these important functions. Opponents argue that removing the voter approval requirements for the creation of an IFD and the issuance of tax allocation bonds will remove any input or direct voter oversight. Moreover, opponents contend the removal of the voting requirement the measure is creating more of a redevelopment type agency without the requirement of making a finding of blight.

AB 1220 (Alejo) Land use and planning: cause of actions: time limitations.
Last Amend: 04/25/2011
Status: Senate Floor

Summary: The Planning and Zoning Law generally requires an action or proceeding against local zoning and planning decisions of a legislative body to be commenced and the legislative body to be served within a year of accrual of the cause of action. Where the action or proceeding is brought in support of or to encourage or facilitate the development of housing that would increase the community's supply of affordable housing, a cause of action accrues 60 days after notice is filed or the legislative body takes a final action in response to the notice, whichever occurs first. This bill would allow an entity challenging an action in support of affordable housing to serve the deficiency notice up to five years after the city's or county's action. The bill provides that after 60 days or the date on which the city or county takes final action in response to the notice (whichever occurs first), the challenging party has one year to file an action in court, except that the lawsuit may not be filed more than five years after the city's or county's action Opponents to this bill, the League of California Cities, the California State Association of Counties, the American Planning Association, and the Regional Council of Rural Counties note that in the Urban Habitat decision, the decision this bill is intended to overturn, the housing advocates were successful in reaching a settlement that overturned the City's growth limit. Additionally, the opponents believe the bill's provisions "do not contain a balanced approach and that under this bill, a small misstep on the part of the local agency can shut down development in a jurisdiction until a lawsuit is completed, even though more targeted remedies are available that can require a local agency to make a fix without imposing a full building moratorium until a court makes a final determination."

Misc

AB 129 (Beall) Local government: fines and penalties: assessments.
Last Amend: 06/14/11
Status: Senate Floor

Summary: This bill is intended to allow local governments to make their code enforcement processes more efficient and effective by authorizing them to make unpaid fine and penalties for property-related code violations a special assessment against the property. The author contends this will allow cities and counties to streamline their code enforcement processes by combining their fine and penalties and nuisance abatement processes.

Mortgage Lending

AB 597 (Eng) California Financial Literacy Fund.
Last Amend: 06/27/11
Status: Senate Appropriations

Summary: This bill (sponsored by the State Controller) would establish the California Financial Literacy Fund in the State Treasury for the purpose of enabling partnerships with the financial services community and governmental and nongovernmental stakeholders to improve Californians' financial literacy. The bill would require the fund to be administered by the Controller and would authorize the Controller to deposit private donations into the fund from entities with no direct financial interest in any financial products. The bill would require those moneys to be made available upon appropriation in the annual Budget Act and would require donations to be returned to contributors if not appropriated within 18 months. The bill would prohibit the use of donations to prom9ote or market the financial products of any contributor. The bill would require the Controller, beginning in 2013, to provide an annual summary to the Legislature on the use of those moneys appropriated from the fund.

AB 935 (Blumenfield) Foreclosures: foreclosure mitigation charges
Last Amend: 04/28/2011
Status: Assembly Committee on Banking and Finance

Summary: This bill would, until January 1, 2015, for loans already originated as of the date that this bill becomes effective, prohibit a notice of trustee's sale from being accepted for filing with the county recorder until the mortgage servicer pays a foreclosure mitigation charge of $20,000. The author argues that the housing/foreclosure crisis not only affects those who lose their homes, but our communities as a whole. Neighbors suffer from reduced property values; local governments lose property tax income; school enrollment declines and law enforcement sees increased calls and violent crimes. AB 935 addresses this problem by requiring mortgage servicers to pay a $20,000 community reimbursement charge before foreclosing on a home. This charge goes entirely to local communities in order to offset the costs borne by our neighborhoods because of foreclosures.

SB 4 (Calderon) Mortgages.
Last Amend: 06/21/2011
Status: Assembly Floor

Summary: Existing law requires a lender to file a notice of default in the case of nonjudicial foreclosure prior to enforcing a power of sale as a result of a default on an obligation secured by real property. Existing law also requires that a notice of sale be given before the power of sale may be exercised. This bill would additionally require, beginning April 1, 2012, that the notice of sale contain language notifying potential bidders of specified risks involved in bidding on property at a trustee's sale, and a notice to the property owner informing the owner about how to obtain information regarding any postponement of the sale. The bill would require a good faith effort to be made to provide current information regarding sale dates and postponements and that the information be available free of charge. The bill would permit the information to be provided by any means that provides continuous access.

SB 62(Liu) Local government: Los Angeles County: notice of recordation.
Last Amend: 06/16/2011
Status: Assembly Floor

Summary: Existing law authorizes the Los Angeles County Recorder, following the adoption of an authorizing resolution by the Los Angeles County Board of Supervisors, to mail a notice of recordation to the party or parties executing a deed, quitclaim deed, or deed of trust within 30 days of the recording of one of those documents. This bill, until January 1, 2015, would modify that authorization to additionally include notice of default or notice of sale, provided by mail by the recorder or a designee of the board, to a party or parties subject to a notice of default or notice of sale of a property, including the occupants of that property, within 5 days, but in any event no more than 20 days, of recordation. If the board of supervisors adopts an authorizing resolution, as specified, the bill would require the County of Los Angeles to submit a report with prescribed information to certain committees of the Legislature on or before January 1, 2014.

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State of California

M E M O R A N D U M

To Board of Directors **Date:** July 6, 2011

Bruce D. Gilbertson, Director of Financing

From: CALIFORNIA HOUSING FINANCE AGENCY

Subject: REPORT OF BOND SALE
RESIDENTIAL MORTGAGE REVENUE BONDS 2011 SERIES A AND 2009 SERIES A-4

On Thursday, May 19, CalHFA closed $180 million of bonds under its Residential Mortgage Revenue Bond Indenture. The bonds were issued in two tax exempt fixed rate series, 2009 Series A-4 and 2011 Series A. The 2009 Series A-4 bonds (the Program Bonds) issued in the amount of $108 million is a conversion of the RMRB 2009 A-1 bonds initially issued in late 2009 under the Federal HFA Initiatives New Issue Bond Program (NIBP). The GSEs (Fannie Mae and Freddie Mac) will retain ownership of the Program Bonds. Participation in the NIBP requires that the Agency sell bonds (the Market Bonds) in a principal amount equal to at least two-thirds of the amount of the released Program Bonds. The Market Bonds were issued as 2011 Series A in the amount of $72 million and were sold to senior managing underwriters, Bank of America Merrill Lynch and JP Morgan under a contract of purchase signed on May 6, 2011. The bonds are rated Aaa by Moody's.

The 2009 Series A-4 bonds will initially bear interest at a short-term rate of .62% and will reset to a long term rate of 3.55% on July 19, 2011. The 2011 Series A bonds will bear interest at rates ranging from .375% on the earliest maturity of February 2012 to 4.75% on the latest maturity of August 2028. The proceeds will be used to purchase mortgage backed securities guaranteed by Ginnie Mae. The underlying loans pooled to create the mortgage backed securities are being made to first-time homebuyers receiving a 30-year fixed interest rate mortgage between 3.875% and 4.875%. These bond proceeds are expected to provide funding to approximately 850 new California homeowners.

Additional details of the Bonds are outlined in the attached summary.

It is expected that the Agency will next issue bonds for this purpose sometime this fall.

SUMMARY OF THE BONDS		
BOND SERIES	2011 A	2009 A-4
Par Amount	$72,000,000	$108,000,000
Type of Bonds (Tax-exempt)	Fixed (serial and term bonds)	Fixed (term bonds)
Tax Treatment	Non-AMT	Non-AMT
Maturities	2/1/2012 - 8/1/2021 8/1/2028	8/1/2041
Credit Rating Moody's	Aaa	Aaa
Interest Rates	.375% - 4.75%	0.62% through 7/18/2011 3.55% after 7/18/2011
Insurance Provider	N/A	N/A